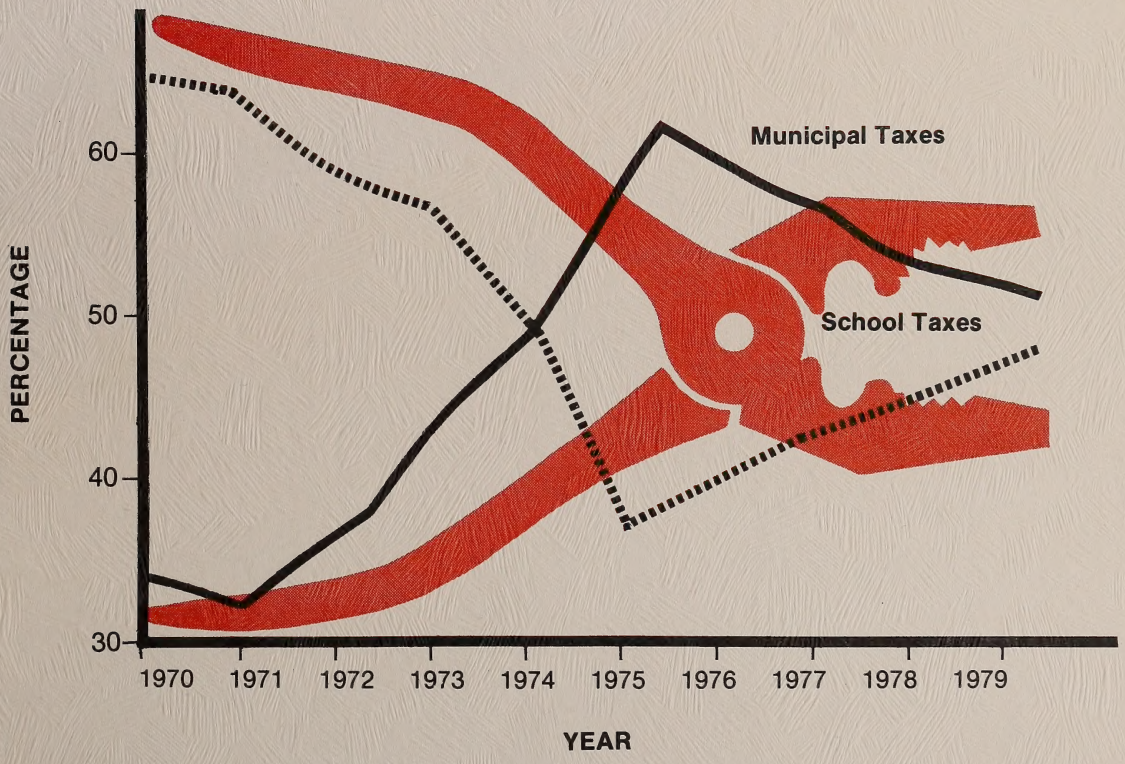
AL.2.1986-760
#1

CANADIANA
C2
MAY 19 1982

THE CASE FOR REVENUE SHARING IN ALBERTA

A DISCUSSION PAPER FOR ALBERTA MUNICIPALITIES

Property Taxpayer in a Squeeze



PREPARED FOR

RAYMOND A. SPEAKER, LEADER

THE OFFICIAL OPPOSITION
LEGISLATIVE ASSEMBLY OF ALBERTA

PDN
5537248

BAIRSTOW AND ASSOCIATES CONSULTING LIMITED
HOUSING AND MUNICIPAL AFFAIRS CONSULTANTS

SUITE 202, MacLean BLOCK, 10110 - 107 ST., EDMONTON, ALBERTA T5J 1J4 TELEPHONE (403) 426-4416

December 7, 1981

Raymond A. Speaker, Leader
The Official Opposition and
Social Credit House Leader
205 Legislative Building
EDMONTON, Alberta
T5K 2B6

Dear Mr. Speaker:

In reference to your September 23, 1981 terms of reference, I am pleased to submit to you a report entitled The Case for Revenue Sharing in Alberta: A Discussion Paper for Alberta Municipalities. The purpose of the Report is to review the concept of revenue sharing with Alberta municipalities and determine if a case can be made for development of such a program in Alberta.

More specifically, the Study examines the experience of other jurisdictions such as British Columbia, Saskatchewan, Manitoba and the United States where revenue sharing plans are in place; examines provincial-municipal fiscal relations in Alberta and other provinces over the last decade; investigates education finance trends in detail in Alberta and their impact on municipal finances; and trends in Alberta municipal revenues, expenditures and grants over the period.

The Report concludes by stating that a case can be made for such a program but before the details can be worked out, much analysis and dialogue must take place between the government and Alberta municipalities on determining a) what revenue sharing is meant for, b) how big the pie should be, c) how the pie should be allocated amongst municipalities, d) how Alberta's grant structure should be restructured to meet the needs of the 1980's and e) the relationship between education financing and revenue sharing.

The purpose of this Report is to promote an open and positive dialogue. Hopefully, this discussion paper will set the framework for a review of this complex topic. I believe that little more needs to be said about the nature of the problem. Clearly, the property tax is inadequate and inequitable, while demands on municipal services in transportation, housing, social services and so on, will continue to escalate in response to a rapidly growing population.

It is now imperative that solutions be developed to allow municipalities to adequately finance their growing needs in the 1980's. Of all solutions available, resource based revenue sharing seems the most appropriate to

.../2

BAIRSTOW AND ASSOCIATES CONSULTING LIMITED
HOUSING AND MUNICIPAL AFFAIRS CONSULTANTS

SUITE 202, MacLean BLOCK, 10110 - 107 ST., EDMONTON, ALBERTA T5J 1J4 TELEPHONE (403) 426-4416

meeting Alberta's municipal fiscal requirements. The key to development of a program is:

a) the consolidation of existing grant programs into a large simplified unconditional transfer of funds;

b) agreement on the actual fiscal requirements for revenue sharing, to develop a minimum base fund;

c) development of an escalator provision which links the growth of the fund not only to resources but also to the growth of the economy;

d) removal of the bulk of education financing from the property tax, thereby creating more local flexibility for municipal tax levies;

e) development of an equitable equalization formula for the allocation of revenue sharing funds that takes into account local fiscal ability to pay and local fiscal effort. Also, the formula developed must be understandable for all parties concerned.

I very much enjoyed the opportunity to carry out this most challenging assignment for you.

Most sincerely,

BAIRSTOW AND ASSOCIATES CONSULTING LTD.

Dale Bairstow

Dale Bairstow, President

Digitized by the Internet Archive
in 2015

https://archive.org/details/caseforrevenuesh00spea

EXECUTIVE SUMMARY

Purpose of the Report

The following Report, The Case for Revenue Sharing in Alberta: A Discussion Paper for Alberta Municipalities, has been prepared to help Alberta municipalities come to grips with the rather complex topic of revenue sharing: how does it work in other Provinces and the United States - is there a need for it in Alberta, and if so, how might progress towards development of such a program be achieved? The Report concludes that a case can be made for a revenue sharing program in Alberta.

Costs of Growth

Alberta municipalities are experiencing unique growth in Canada and are running into serious difficulty financing this growth, not to mention inflation and the impact of high interest rates. In 1980, on average, 82% of municipal expenditures were financed through local property taxes and local revenues. While the remaining costs are paid by the Province, this portion (18%) is dropping and will continue to drop.

At this time, municipalities are trying to limit property tax increases in 1982 to 15%, but the massive fiscal requirements to finance roads, LRT, and related transit costs are making this difficult. The City of Calgary, for example, needs an additional $979 million dollars to finance transit related growth costs over the next five years. If mill rates are maintained at current levels, Calgary needs an additional $140 million per year to pay for the capital portion of transit costs alone.

Not only large urban centres but also rapidly growing towns have had dramatic cost increases due to the high costs of growth. For example, between 1976 and 1980, expenditures rose by 37.5% per year in Cold Lake, 31.8%/yr in Grand Centre, and 35.2%/yr in Drayton Valley.

Provincial Assistance

The second major reason why revenue sharing is needed relates to current provincial-municipal fiscal arrangements. At a time when most Provinces are reducing conditional "strings attached" programs and increasing unconditional assistance to municipalities, Alberta is moving the other way. At the present time, 75% of all transfers (capital and operating) from the Province to Alberta municipalities are in the form of conditional grant programs. There are now over 100 such

programs in place, all with their own eligibility criteria, guidelines and regulations. This labyrinth of continually changing programs does little to foster local municipal autonomy or effective fiscal management. If anything, such programs create an unhealthy dependence on the Province to come to the rescue whenever need arises.

Tied to the Economy

The third major reason for needing revenue sharing is the need to link transfer payments to the growth in the economy in a predictable and understandable way. Many of the revenue sharing schemes examined in this Report are diffi-cient in that the fluctuations in the economy are not smoothed out. Thus, for example, while the B.C. plan has been very good for municipalities in the past (revenues up 18% per year), 1982 will be very difficult because resource revenues are down as much as 50% in some areas. Nevertheless, if growth escalators can be tied to the total provincial economy and not just the actual revenues as a percentage, then these problems can be overcome.

Education Finance

The Report also examines the issue of education financing and its impact on municipal financing. The Study points to numerous reports and commissions calling for removal of education from the property tax and notes that in 1971, the Minister of Education, Lou Hyndman, promised to do just that and have education costs paid for by resource revenues. Up to 1975, the Province did come to the aid of local property taxpayers and in that year, only 25% of school costs were financed locally. However, since then, the Province has limited its grants under the Foundation Program, expenditures have far exceeded the allowable increases, and local requi-sitions have risen dramatically.

By 1981, 37.7% of all provincial school costs are paid for out of local revenues. This in turn represented almost half of all property taxes raised locally. More disturbing than this is the fact that school taxes are rising in some cases almost twice as rapidly as municipal purpose taxes. Munici-palities must collect this money but have no impact on con-trolling the increases. Yet the more school taxes go up, the more limited is the municipalities' flexibility in setting their own priorities and budgets.

Experience Elsewhere:

Manitoba

The Report examines the formulas and experience of revenue sharing in other jurisdictions, such as British Columbia, Saskatchewan, Manitoba and the United States. In theory, the Manitoba formula was supposed to be the best because it is a form of income tax and municipalities can change the rate if they see fit. However, closer examination reveals that payments under the program are totally inadequate

($26.25 per capita in Winnipeg), only constitute less than 5% of the cities' budgets, and have only increased by 5% per year since 1976. Likely with a new NDP government in Manitoba, the formula rate will be adjusted upwards to reflect more realistic levels.

Saskatchewan

The Saskatchewan program is the only Canadian revenue sharing scheme that has been fully evaluated and is probably the best so far because it a) provides additional new revenues to municipalities, b) provides a source of revenue indexed to economic growth, c) it equalizes funds among municipalities in a much fairer way than most other Provinces and d) it strengthens local autonomy through dramatic increases in unconditional transfer payments. Its only serious drawback appears to be its complexity. So many variables are computed into the formula that municipalities cannot easily determine or understand their own allocation.

British Columbia

The British Columbia program, begun in 1978, shares 6% of every economy generated dollar (corporate, income tax, and resource revenues) on a largely per capita basis (80% per capita, 20% equalized). Municipalities in B.C. have done well by this program and revenues have increased at a somewhat faster rate (18%) than municipal expenditures. However, as the 1982 economy is predicted to be very slow in B.C. (especially due to falling housing starts in the U.S., etc.), revenues under the program will likely fall. So far, B.C. municipalities are generally satisfied with their program, although funding to smaller and poorer municipalities is inadequate and the equalization provisions of the formula do not go far enough.

United States

Revenue sharing in the U.S. was introduced in 1972 by Richard Nixon after almost 25 years of debate. The program takes a portion of federal income tax and allocates it to states and municipalities using various complex formulae that take population, urbanized population, weighted per capita income, state income taxes, and local tax effort into account. The American program largely came about because the federal bureaucracy in Washington had grown from 160 to 550 categorical grant programs from 1963 to 1972, each with its own requirements, restrictions, formulae, and administrative procedures under central direction from Washington.

Strategy for Adoption of Revenue Sharing

The Report contends that there is no doubt that a need for revenue sharing exists, but little progress will be made until Alberta municipalities clearly articulate the guiding principles they wish to achieve by such a program. It is recognized that there is a serious need for additional funds over and above

Purpose

existing transfers. However, do they wish this money to be used to pay for expensive LRT capital expansions, or current operating deficits? Do they want monies allocated to take into account local fiscal capacity and needs, or do they want funds distributed on a very simple per capita basis? And what about education? If education were removed from the property tax, the breathing room created by this move might remove the need for revenue sharing (for a time, anyway).

Needs

Clearly, the toughest question to resolve is, how big should the pie be? Until substantive municipal research is done on determining the needs and a climate for dialogue between the Province and Alberta municipalities is available, little progress will be made. The two levels of government must sit down and agree upon their joint responsibilities for financing the very expensive costs of growth in the 1980's.

Review

The Province, for its part, must assess the merit and success of each and every one of its conditional grant programs with a view to consolidating and simplifying programs, and increasing funding for unconditional assistance.

Allocation

The last, and perhaps most technically difficult task, concerns the determination of an equitable formula for the distribution of the revenue sharing funds across the Province. Once the principles for equitable sharing between municipalities are accepted between the two levels of government, studies should be undertaken to explore and recommend the best formula to meet Alberta's unique municipal geography and fiscal requirements. The Province and the municipalities should meet to explore and develop an appropriate formula with a specific deadline for reporting.

Conclusion

Throughout the Study, many municipal officials and politicians were interviewed. Many expressed the feeling that it was futile to ask for revenue sharing because the government was opposed to it. Many were of the opinion that new sources of revenue were so desperately needed that anything they could get - a gas tax, a sales tax, a hotel tax, etc. - would be worth going for to help alleviate a growing problem. However, it is the contention of this author that such revenue alternatives as mentioned above are simply a drop in the bucket and are totally inadequate to meet the growing shortfall. On the other hand, a revenue sharing program with a revenue base tied to justifiable budget requirements, allowed to escalate with the economy and not just the resource revenues, and with a fair allocation formula that takes into account the massive transit costs of the big cities plus the limited fiscal tax base of the smaller centres - this would be appropriate for Alberta in the 1980's.

TABLE OF CONTENTS

Chapter		Page
I	INTRODUCTION	1
II	PROVINCIAL-MUNICIPAL FISCAL RELATIONS IN CANADA	4
	A. Ontario	4
	B. Nova Scotia	6
	C. Other Provinces	7
	D. Concluding Observations	8
III	THE EXPERIENCE OF REVENUE SHARING	9
	A. Manitoba	9
	B. Saskatchewan	10
	C. British Columbia	13
IV	PROVINCIAL-MUNICIPAL RELATIONS IN ALBERTA 1971-81	15
	A. The Government Commitment in 1971	15
	B. The Farran Task Force: 1972	16
	C. The Provincial-Municipal Finance Council Report: 1979	16
	D. The McMillan-Plain Report: 1979	18
	E. The Current Situation	18
V	TRENDS IN EDUCATION FINANCING IN ALBERTA	21
	A. Education and the Property Tax	21
	B. Percent of School Costs Financed by Local Government	22
	C. Trends in Revenues and Expenditures	24
	D. The Relationship Between Education and Municipal Taxes	26
VI	MUNICIPAL FINANCE IN ALBERTA	34
	A. Trends in Expenditures	34
	B. Trends in Revenues	35
	C. Provincial-Municipal Grant Programs in Alberta	39

(Continued) TABLE OF CONTENTS

Chapter		Page
VII	INTERVIEWS WITH MUNICIPAL OFFICIALS	41
VIII	STRATEGY FOR ADOPTION OF REVENUE SHARING	43

***

APPENDIX A:	ALBERTA MUNICIPAL ASSISTANCE PROGRAMS FOR 1981	47
APPENDIX B:	BIBLIOGRAPHY	51
APPENDIX C:	THE UNITED STATES EXPERIENCE	55

LIST OF TABLES

Table		Page
1	Local School Authority Revenues: 1950 to 1981	23
2	Growth in Alberta School Expenditures: 1972 to 1981	25
3	Education Versus Municipal Tax Levy by Location: 1979 ($000)	33
4	Total Alberta Municipal Expenditures: 1972-80	34
5	Alberta Municipal Revenues by Component: 1972-80	38

LIST OF GRAPHS

Graph		
1	Local School Authority Revenues: 1950-1981 Province Versus Municipal Government	24
2	Municipal Taxes - Calgary & Edmonton	27
3	Municipal Taxes - Other Cities	28
4	Municipal Taxes - Towns	29
5	Municipal Taxes - Villages	30
6	Municipal Taxes - Counties	31
7	Municipal Taxes - Municipal Districts	32
8	Provincial Conditional and Unconditional Assistance to Municipalities	36

I INTRODUCTION

In 1972 revenue sharing was signed into law in the United States with all the oratory and trappings of an historic occasion. Revenue sharing was referred to as the basic ingredient in the "new American Revolution to return power to the people and put the individual self back in the idea of self-government". Today, in Western Canada, Alberta is the only Province without some form of revenue sharing. Saskatchewan first introduced the concept in 1968 with the sharing of rural municipal tax levies on potash development with municipalities near potash developments. In 1978 the Province introduced a broad provincial-municipal revenue sharing program that provides municipal governments with a pool that is designed to grow with the provincial economy and be distributed among municipalities based on expenditure needs and revenue capacities.

In 1976 in Manitoba, a revenue sharing program was also introduced whereby 2.2 full percentage points on the provincial personal income tax rate and 1 percentage point on the corporate income tax rate would be transferred directly to municipal governments, to be paid to them on the partially equalized basis that the per capita formula provides, with "no strings attached". The Premier stated:

> Our government believes that this growth tax sharing proposal represents the basis for major and fundamental reform of local government financing. It will provide Manitoba's municipalities with a means of introducing greater equity into their own tax structures, while at the same time maintaining their autonomy and ensuring their accountability to their taxpayers.

In 1978 British Columbia also introduced a revenue sharing program whereby the Province shares about six cents of every dollar with municipal governments. The shared revenue consists of the yield of one point of personal income taxes, one point of corporate income taxes, and 6% of renewable and non-renewable resource and sales tax revenues. Eighty percent of the unconditional grants are distributed on a per capita basis and twenty percent of the funds are equalized on the basis of local fiscal capability. In introducing the program, the Minister of Municipal Affairs commented, "The days of ad hoc hand-outs to municipalities are over".

The above examples of revenue sharing in Western Canada and the United States indicate a trend towards less conditional grants and more political acceptance of the principle of revenue sharing and more responsibility for decisions at the local municipal level in Canada. As the following Report will show, these trends may also be seen in almost every Province in Canada.

Alberta stands alone, appearing to buck the trend. Only Alberta flatly and categorically refuses to even consider the sharing of resource revenues with municipalities. Even after Alberta signed an energy pact with Ottawa on September 1, 1981 which could pour $64 billion dollars into provincial coffers by 1986, a testy Municipal Affairs Minister Marv Moore, at the fall 1981 annual AUMA Convention warned local politicians their rejection of a gasoline tax could cut them out of grants altogether.

Obviously provincial municipal relations at the present time are strained and in the present climate an intelligent discussion of revenue

sharing is not possible. However, the purpose of this Report is to bring the discussion back to some basic questions, such as:

a) What is the key reason behind revenue sharing and what has been the experience elsewhere?

b) What is the trend across Canada in the area of provincial-municipal fiscal reform and why?

c) What is the history of provincial-municipal relations in Alberta over the last decade?

d) What is the trend in education finance in Alberta and how has it affected municipal financing?

e) What is the current municipal fiscal situation in Alberta in relation to local tax burden, conditional and unconditional grant programs?

f) What do Alberta municipalities really want, more money, more responsibility, or both?

The purpose of this Report is to generate a meaningful and substantive discussion of the fundamental issues behind revenue sharing. Is there really a case for it in Alberta, or not? If there is, how can progress be made towards obtaining it for Alberta municipalities? This Report outlines a strategy for the adoption of revenue sharing based on a joint provincial-municipal assessment of the issues behind the concept, the need for it, and an open and positive dialogue between the Province and Alberta municipalities. Hopefully this discussion paper will carry the review of this rather complex topic past the realm of rhetoric into a new era of provincial-municipal fiscal reform.

II PROVINCIAL-MUNICIPAL FISCAL RELATIONS IN CANADA

A. Ontario

Over the last decade there have been numerous task forces, committees, and commissions across Canada examining the thorny topic of provincial-municipal fiscal reform. One of the most detailed examinations was carried out in 1976-77 by the Provincial-Municipal Grants Reform Committee in Ontario. This group was authorized to "review the present system of transfer payments made by the government to municipalities and to study the possibilities and feasibility of altering in whole or in part the basis on which payments are made to ensure that transfer payments to local governments be made on a sound, equitable, and efficient basis.". The Committee concluded that "the provincial-municipal grants structure in Ontario today is a $1.5 billion labyrinth". Even as far back as 1967, the Ontario Committee on Taxation reported that:

> The situation with respect to provincial grants to local authorities is - and we choose our words carefully - chaotic. It is not even possible to enumerate readily the programs currently in force.

As will be discussed later in this Report, the Alberta situation in 1981 is no different than the Ontario situation in 1967. Part of the difficulty with reform in Ontario lay as much with the municipalities as with the provincial government. The absence of greater follow-through by municipalities was lamented by the Treasurer, the Honourable Darcy McKeough, in his statement to the Founding Convention of the Association of Municipalities of Ontario on June 19, 1971:

> The Ontario government clearly recognizes the need to rationalize the grants system. We are presently in the process of doing this. In passing, I would remind you that since March 1969, I have been asking you for suggestions as to which conditional grants may be eliminated. I have received none.....

Clearly, if Alberta municipalities are concerned with the proliferation of conditional grant programs, then they will have to collectively examine and decide which ones they feel should either be eliminated or transferred to their own jurisdiction for responsibility.

The Provincial-Municipal Grants Reform Committee made a number of conclusions regarding the grants system, the majority of which may be also applied to the current Alberta situation.

1. There are too many specific grant programs.
2. There is confusion and uncertainty among recipients.
3. The administrative requirements are excessive.
4. There is too much "entanglement".
5. The system impairs local autonomy.
6. There are too many special purpose bodies.
7. Some grants are obsolete.
8. There is an inconsistent variety of equalization provisions.

The Committee basically recommended a significant reduction in the number of conditional grant programs and a change from the current ratio of 72% of transfers of a conditional basis to 40% conditional (60% unconditional).

B. Nova Scotia

One of the most detailed reviews of local government to take place in Canada was the Graham Commission, otherwise known as the Commission on Education, Public Services and Provincial-Municipal Relations in Nova Scotia. The Report, tabled in 1975 did not advocate revenue sharing, but made many recommendations that went a long way towards solving the problems that generated the need for revenue sharing in the first place. The Commission found that the present allocation of responsibilities for public services between the Province and the municipalities was singularly unsuited to the 1970's.

They found that with costs of education and other general services rapidly rising over the past decade, municipalities and their taxpayers felt they had to bear much of the brunt of these rising costs at the expense of needed municipal services. This point will be shown in this Report to apply equally to current Alberta trends.

The Commission recommended solving the fiscal crisis by removing education off the residential real property tax and making it a provincial responsibility, thus leaving more than enough revenue available locally for local needs. To solve the problems of too many conditional grant programs, the Commission recommended drastically simplifying the municipal finance system in the Province, with the Province using non-residential property as its tax base and the municipalities using residential property for theirs.

As a result of the Commission's work, beginning in 1980 Nova Scotia introduced a new grant fund to replace existing grant programs. The grant

fund is indexed to the rate of increase in Gross Provincial Revenues. Since this provision guarantees municipalities a definite share of the gross provincial budget, it can be considered a form of revenue sharing. Most important, the grant is unconditional, returning to municipalities a considerable degree of autonomy in their expenditure decisions.

C. Other Provinces

Newfoundland is rather unique in its organization and educational structure. The Royal Commission on Municipal Government in Newfoundland (the Whalen Commission) recommended increasing the financial responsibility of the municipalities, the wider use of the property tax, and a rational system of grants to municipalities from the provincial government. Many of the recommendations are now being implemented. Resistance to property taxation, with reliance on a municipal income tax levied as a surtax on the federal income tax, was advocated by some municipal authorities but is unlikely to be used. Grants to municipalities are based on population, economic well-being, road mileage and the real property tax.

The municipal tax structure in New Brunswick is based on the general philosophy that the Province, with federal aid, should finance and provide services to people (education, health, welfare and justice) and the municipalities service property (roads, police, fire protection, water and sewage and garbage collections). Municipalities levy taxes at the local level to finance their share of local service costs. This is roughly 50% of the costs (the other part is financed by the unconditional grants), but varies from one municipality to another. Since the government of New Brunswick has made generous amounts available to the municipalities, there is already a form of

revenue sharing of income, sales, and other tax revenue in operation. In 1977 for example, the Province raised $40 million by property and business taxes, and granted $82 million to the municipalities. The government of New Brunswick does not support revenue shared as a set percentage of growth revenues because it feels that freedom to adjust the budgets is better for municipalities than tying the funds to be distributed to definitely defined revenues.

D. Concluding Observations

The general situation of provincial-municipal relations in Canada was eloquently described in the now often quoted Canadian Federation of Mayors and Municipalities 1976 Report, Puppets on a Shoestring. The Report states:

> Municipal Government is in a crisis right now. The outward signs are the steady loss of municipal power and increasing financial constraints. Grants from provincial and federal governments come with so many strings attached and represent such a large part of municipal budgets that the municipalities are becoming puppets in a show run mainly by provincial governments.
>
> Democratic accountability is being eroded by a more sinister accountability to bureaucrats, mainly in provincial capitols. This relationship is forced by the muncipality's dependence on the system's conditional grants.
>
> The CFMM is criticizing the continuance of an inadequate system of public finance in Canada which does not allow government access to growth revenues it needs to do its job.

As this chapter as well as Chapter III will illustrate, many Provinces have moved to rectify this situation. Alberta is an exception.

III THE EXPERIENCE OF REVENUE SHARING

A. Manitoba

Manitoba was the first Canadian province to formally adopt a revenue sharing plan, with the adoption of The Provincial-Municipal Tax Sharing Act in Manitoba in 1975. Under the scheme, Manitoba municipalities receive 2.2 percentage points of the provincial personal income tax and 1.0 percentage point of the corporate income tax. This tax is considered as a municipal levy separate from the provincial personal and corporate income taxes. It is seen as a municipal tax, administered by the Province. The municipalities have the right to change the tax rates if a majority of the municipalities agree, although up to the present time, there have been no changes.

The majority of the funds are allocated on a per capita basis ($21 in 1981) with additional funds (5.25 per capita) allocated to cities over 5,000 in population. The basic problem with Manitoba revenue sharing funds is that the amount of funds provided is inadequate. In 1976 the program provided only $17.0 million and by 1981 the budget under this program had only grown to $24.1 million dollars. Below, the funds budget is summarized:

1976 - $17.0 million
1977 - $21.3
1978 - 18.7
1979 - 20.1
1980 - 23.3
1981 - 24.1

As noted above, revenues declined by 18% in 1978 to 1979 because of slower economic growth and an adjustment made to an overestimation of revenues in 1977-78 and the resulting overpayment to municipalities. Futhermore, the

impact on the municipal budget is very small. In 1978, revenue sharing made up only 4.8% of the cities' total revenues, on average, and 9.6% of rural municipalities' budgets.

Since the program began, there have been no evaluative studies of the program and no specific recommendations have yet come forward to suggest program modifications. In addition, there seems to be no vehicle to discuss this issue in a formalized manner.

B. Saskatchewan

After many years of pressure from its municipalities, Saskatchewan introduced a revenue sharing program in January, 1978. The program had three basic objectives: 1) to provide another major revenue source for local governments; 2) to provide a source of revenue indexed to economic growth; and 3) to maintain and strengthen the autonomy of local governments. The Saskatchewan program is worth exploring in somewhat more detail because it is the only program in Canada that has been carefully evaluated and also, it is different than all the other schemes in place in Canada. Quebec, Ontario, Manitoba and British Columbia all have schemes which provide municipalities with a defined portion of provincial revenues collected, while the Saskatchewan program ties revenue sharing to the growth of the provincial economy. It also equalizes the funds to municipalities in a much fairer way than in most other provinces.

The program works as follows. First, programs that are rolled into revenue sharing differ according to the type of municipality. For rural municipalities, all grants were rolled in, while for urban municipalities, the three major grant programs (police grant, per capita grant, and equalization grant) were combined into the program.

Second, with respect to the total amount that will be allocated to the rolled-in program, two separate pools are determined for urban municipalities as a group and for rural municipalities as a group. In contrast to the Manitoba program, which was calculated only to replace existing grants, the Saskatchewan program resulted in 37% more money to rural municipalities and 52% more money to urban municipalities in 1978-79 over the previous year's levels.

Third, once the sizes of the two pools are determined for 1979-80, the annual increases thereafter will be determined according to an "escalator" that reflects the growth of the provincial economy. The escalator is tied to the growth rate of the bases of four major provincial taxes: the sales tax, the corporate income tax, the personal income tax, and gasoline and fuel taxes. For urban municipalities, the pooled funds are distributed according to three components: 1) a flat amount per community, 2) a per capita amount per community, and 3) a "foundation grant" which recognizes special local circumstances with respect to local costs and revenues. The foundation grant is a type of "fiscal need grant" where fiscal need is measured by the amount by which the cost to a municipality of providing a given standard of basic municipal services exceeds the revenues that the municipality would derive from applying a given standard rate of taxation to its own assessment value.

An evaluation of the Saskatchewan revenue sharing program, by Professor O. Yul Kwon of the Faculty of Administration, University of Regina, concluded that a) the program did provide an additional revenue source (26% more on average per year during 1974 to 1979), that it did strengthen local autonomy (unconditional grants rose from 40% of total before the plan, to 70% after implementation) and it did grow in relation to the provincial

economy. Relating the escalator directly to the growth of gross provincial product may raise serious problems in municipal financial management due to sharp fluctuation in the economy over time.

The Saskatchewan revenue sharing program seems to have worked out quite well by reducing conditional grants, increasing municipal revenues, linking increases with the growth in the provincial economy and thereby working well as an automatic restraint to the expansion of municipal expenditures since the share is indexed essentially to the level of economic activity. Also, it appears to have been very successful in equalizing the inequities arising from differences among municipalities in expenditure needs and fiscal capacities.

C. British Columbia

The B.C. revenue sharing program, which began in 1978, shares 6% of every economy generated dollar of provincial revenue with municipal governments. The shared revenue consists of the annual yield of a) one point of personal income taxes, b) one point of corporate income taxes, and c) six percent of renewable and non-renewable resource and sales tax revenues. The size of this fund has grown quite substantially, from $138.3 million in 1978 to an estimated $213.8 million in 1981, or an average increase of 18% per year.

The revenues are distributed under seven grant programs which include flat grants to municipal governments and regional districts, and local service oriented grants related to water facilities, housing starts, and highways, but with the bulk allocated under a new unconditional scheme. Eighty percent of the unconditional grants are to be allocated on a per capita basis, while the remaining twenty percent varies with expenditures and per capita assessment relative to the provincial average. Since 80% of the funds are allocated strictly on a per capita basis, the impact of the equalization provisions are small.

In 1979 (latest aggregated data available) revenue sharing provided $141.7 million or 16.7% of total municipal revenues, as follows: (in millions)

Local Taxation	-	$477.9	56.5%
Conditional Transfers	-	$225.8	26.7%
Revenue Sharing	-	$141.7	16.7%
Total		$845.4	99.9%

The impact on municipal budgets is far more significant in British Columbia than it is in Manitoba. In 1979, for example, Vancouver received $21.6 million from the program or 11.3% of the municipal budget. By 1981, revenue sharing funds for Vancouver had grown to $30.4 million, which represented 13.6% of the city's budget.

Discussion with officials from the Union of B.C. Municipalities indicated that B.C. municipalities were generally satisfied with the program and its formula, except that the base grant of $30,000 minimum per community should be raised to $60,000 to help the smaller and poorer jurisdictions.

By far the most significant issue in British Columbia at this time is the issue of education financing. Due to significant changes in house prices, the impact on school taxes has been dramatic and has forced the Province to once again seriously consider financing education from provincial revenues rather than local property taxes. In October 1981, the Minister of Education, Brian Smith, announced that B.C. would try to develop a core curriculum, funded totally by the Province by 1983. Whether they can afford to do this, with recent teacher salary settlements for 1982 up by 18% and provincial resource revenues down substantially (e.g. falling housing starts in the United States result in timber revenues down by 50%) remains to be seen.

If the economic climate in B.C. in 1982 is as poor as currently predicted, clearly, revenue sharing funds may not grow as fast as they have been in the past and this will obviously be of concern to British Columbia Municipalities.

IV PROVINCIAL-MUNICIPAL RELATIONS IN ALBERTA 1971-1981

A. The Government Commitment in 1971

One of the most significant commitments of the new Lougheed government in 1971 concerned the area of financing education. The current situation is described in detail in the next chapter, however, in light of present statistics, whereby almost half of all local taxes go to education, it is useful to quote a speech from the Minister of Education, Honourable Lou Hyndman in 1971 to the annual convention of the Alberta Association of Municipal Districts and Counties.

> In 1973 the government will be dealing with a completely new concept of educational financing which will involve the provision of a basic package of education from the general revenue of the Province. The new system would be more fair to the property taxpayer. Use of property taxes to finance education is in many ways not very fair to the taxpayer. Using resource revenues which come to everybody generally and income and corporate taxes which are based on ability to pay we feel is a fairer and more equitable way to do it. Under this system, property taxes would be used to service the property for which they are paid - for fire and policing and sidewalks.

Those statements were made in 1971 by a new government and by a man who came to be the current Provincial Treasurer. In 1981, the Government flatly refuses to consider any form of revenue sharing, going so far as to say that they are doing municipalities a favor by denying them access to resource revenue.

B. The Farran Task Force: 1972

In 1972 the new government appointed Conservative MLA Roy Farran to chair a Task Force on Provincial-Municipal Fiscal Arrangements. Part of its terms of reference were "to seek the proper division of responsibilities and relate each to specific sources of revenue". Few of its recommendations were implemented, but the general tone and direction of the Report are worth reiterating.

> This Task Force tends to agree with the statements by James A. Johnson to the Ontario Committee on Taxation where he points out that since eighty percent of municipal revenue comes from the regressive property tax, real equity can only be improved by increased senior government grants or by the sharing of more progressive taxes.
>
> If more social programs now funded in part or in whole by municipalities were assumed by the Province, greater equity would be achieved for all Albertans. The principle of equality of opportunity applies most directly to education and health. We saw the funding of human resource programs as a priority use for funds derived from the sale of natural resources.

C. The Provincial-Municipal Finance Council Report: 1979

In 1975 the Government of Alberta appointed a ten-man group of elected representatives from the provincial and local levels of government in Alberta. It became known as the Provincial-Municipal Finance Council and was comprised of five MLA's, two AUMA representatives, two representatives from the Alberta Association of Municipal Districts and Counties, and one representative from the Alberta School Trustees Association. The Council, which was given a full research staff, was asked to examine and recommend upon:

> a) which services should be provided by the provincial and municipal governments and the source of funding for such services,

b) the requirements and sources of revenue of capital works in rapidly growing municipalities,

c) municipal property assessment and taxation,

d) the Alberta assessment equalization procedure,

e) matters raised in the Farran Task Force Report (1972).

The Council submitted its Report in April 1979, along with 84 recommendations. One of the recommendations which relates to revenue sharing was a proposal for property tax growth sharing. This concept has been in operation in the United States in several jurisdictions and involves the inter-municipal sharing of the growth in commercial-industrial assessment. The current Minister of Municipal Affairs, Honourable Marv Moore, has recently revived this idea as an alternative to revenue sharing. However, the concept was widely reviewed with Alberta municipalities in 1977 and the reaction was negative. The most frequently cited reasons for rejection were that the proposal did not involve any provincial revenues, that it was too complicated for practical administration, and that the lack of a distribution formula and administrative details in the Report made it impossible to evaluate properly. It was seen as "tinkering with the property tax system" and an example of further provincial intrusion into the property tax field.

In the area of education finance, the Council recommended:

> The Province assume full financial responsibility from provincial general revenues for the School Foundation Program and the present school requisition upon municipalities be terminated.

Shortly after submission of the Council Report in 1979, the Council was disbanded and work ceased. Few of the numerous recommendations have been

acted upon since that time.

D. The McMillan-Plain Report: 1979

In 1979 the Alberta Urban Municipalities Association commissioned two University of Alberta economics professors, Dr. Melville McMillan and Dr. Richard Plain to carry out a study entitled The Reform of Municipal-Provincial Fiscal Relationships in the Province of Alberta. The Study examined the Alberta situation, as well as the experience of other jurisdictions in the field of revenue sharing. The authors favored personal income tax or tax base sharing over revenue sharing, which they called their "second best" choice. They concluded that this approach, in conjunction with the selective reduction of conditional grant programs offered the most balanced approach towards correcting the municipal fiscal problem.

The Report did not recommend revenue sharing along the lines of the British Columbia program because if the money still came from the Province, local councils would still be at the mercy of the senior governments and would also be less responsible in their spending. Unfortunately, the Report's recommendations did not go over very well. However, the authors' recommendations as a "second best" solution with resource revenue sharing received much more support.

E. The Current Situation

As a result of the McMillan-Plain Report in 1979 and intense lobbying from the Alberta Urban Municipalities Association, Municipal Affairs Minister Marv Moore set up a Committee of four municipal and two provincial representatives to investigate alternative sources of municipal revenue. The Committee was asked to report in the spring of 1982.

In the spring of 1981 Mr. Moore stated that the Committee was examining revival of a gas tax to help finance municipal transportation projects. This tax was 10 cents a gallon in 1978, producing $95 million in that year when it was shelved. Mr. Moore estimated that a similar tax in 1981 would yield about $150 million dollars. However, at the fall 1981 Annual Convention of the AUMA, this proposal, offered by Mr. Moore was flatly rejected with a request for 8% of Alberta's oil revenues. As Alderman Percy Wickman of Edmonton told the convention:

> We're being placed in a position where we're the fall guys, adding another tax onto gasoline prices to raise money for municipalities.

Delegates to the convention mentioned $65 billion as the figure Alberta will gain in revenue sharing during the next five years as a result of the recently signed energy agreement. However, Mr. Moore responded by saying, "The bank is dry. It's all gone. There is just no more".

The Committee also examined other sources of revenue, such as hotel tax, license plate surtax and a liquor tax but was not given the mandate to examine income taxes or resource revenue sharing. They also examined the sales tax but this idea was also rejected by Mr. Moore, stating that Alberta will never have a general sales tax as long as natural resource revenues aren't mishandled. However, the Committee stated in August 1981 that they had found few ways to squeeze more money from existing resources. One Committee member, Alderman John Oldring of Red Deer stated, "There's not a heck of a lot, to be honest".

Despite the fact that the Province seems unwilling to seriously consider some form of revenue sharing with municipalities, the pressure is growing. In 1981, while provincial expenditures increased by 23.9 percent, unconditional grants to municipalities rose by only 9.0 percent. In the 1977-78 fiscal year, Alberta's total budget was $3.47 billion and this almost doubled to $6.86 billion for the 1981-82 fiscal year. This represented an annual average percentage increase of 18%. Based on projections of revenues from the September 1, 1981 Energy Agreement ($64.30 billion) and a Trust Fund share of 30%, and providing for a 20% increase per year in provincial budget needs, it is estimated that over 5 years, at 8% of resource revenues, Alberta municipalities would receive $5.14 billion, the Heritage Trust Fund would receive $19.29 billion, and the Government of Alberta for programs would receive $45.01 billion. The above figures would seem to indicate that even with revenue sharing at 8% of the total, the Province could part with this money, allow its own budgets to grow by a rate of well over 20% per year, and still have significant funds left over to meet its costs and save for the future through the Alberta Heritage Trust Fund.

V TRENDS IN EDUCATION FINANCING IN ALBERTA

A. Education and the Property Tax

The topic of education financing and its importance to the issue of provincial-municipal relations has been a central theme for decades. Over time more and more provinces have moved to make education a total provincially financed item. In Alberta, as far back as 1969, the Alberta Urban Municipalities Association, in a Brief to the Minister's Committee on School Finance wrote:

> Property must be relieved of the excessive tax burden now being imposed to meet the requirements of elementary and secondary schooling. Without such relief an increasing number of citizens (both property owners and renters) will be placed in a critical situation. Because property tax is regressive and weighs most heavily on those of fixed income, this tax should be kept at a minimum and the financing of social programs including education should be based on other sources of revenue insofar as it is practicable.

The AUMA noted that the Hellyer Task Force on Housing recommended that property should not bear more than 20% of the costs of schooling, whereas in 1967/68 local taxation in urban areas was meeting 45% of the costs. The AUMA concluded, in its final recommendation that:

> Grants from the Foundation Fund to local school boards should be so adjusted as to cover a minimum of 95% of the aggregate operating costs of the school boards. The school boards would raise the remaining 5% by supplementary requisition from the ratepayers. (In 1981 supplementary requisitions represented 28.2% of the total costs of education in Alberta.)

In 1971, the first Minister of Education in the new Lougheed government, the Honourable Lou Hyndman, promised to remove education from the property tax. The Premier and the Education Minister promised to bring this

change about by 1972 or 1973 at the latest. As will be shown in the following section, provincial aid to education did in fact reduce the portion of costs of education supported through the local property tax up to 1975. However, after 1975, the trend reversed and today, we find almost half of all local property taxes in Alberta going to pay for education.

B. Percent of School Costs Financed by Local Government

The revenues of local school boards in Alberta are composed of 1) the School Foundation Program Fund (SFPF), 2) other provincial grants, 3) supplementary requisitions from municipalities and 4) miscellaneous revenues. The Foundation Program Fund includes basic instruction, transportation and administration grants plus debt service support. It is partly funded by a provincially set tax levy on all commercial and industrial property with the remainder funded out of general provincial revenues. Other provincial grants go to special programs such as early childhood services, community schools, special education, handicapped pupils, remote location and declining enrolment. Supplementary requisitions are the funds raised through local property taxes and are budgeted to provide the difference between revenues from other sources and total expenditures. Miscellaneous revenues include such items as tuition fees, transportation charges and receipts from the sale and rental of books.

Table 1 following shows how the amount and proportion of each revenue category have changed. The provincial share of school funding increased consistently from 1950 to 1975, from 25% to 71%. However, since 1975 the provincial share of school costs has dropped regularly.

TABLE 1

LOCAL SCHOOL AUTHORITY REVENUES, 1950 TO 1981

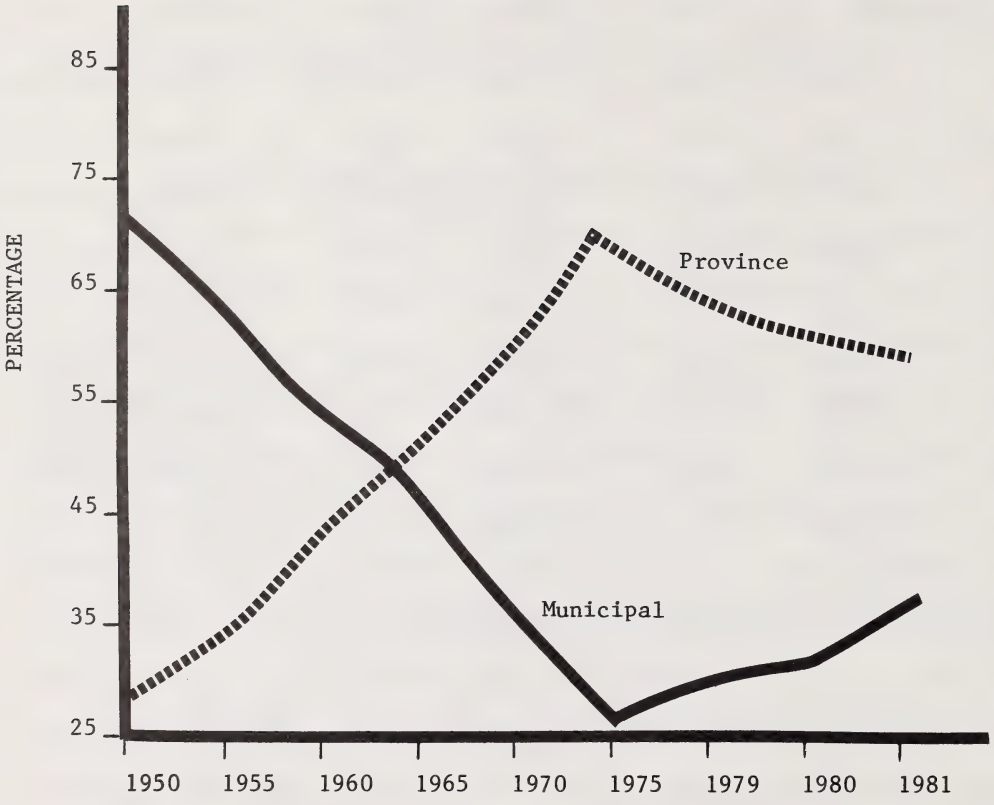
Year	Provincial Revenues $000	%	Local Revenues $000	%	Total $000	%
1950	6,408	25.2%	17,782	70.1%	25,381	100.0%
1955	15,835	32.4%	31,284	64.0%	48,870	100.0%
1960	40,243	44.9%	46,671	52.1%	89,628	100.0%
1965	78,587	47.7%	82,121	49.8%	164,859	100.0%
1970	207,932	61.1%	120,307	35.4%	340,241	100.0%
1975	434,557	70.7%	156,208	25.4%	614,536	100.0%
1979	607,942	63.4%	303,998	31.7%	959,185	100.0%
1980*	660,578	61.6%	359,243	33.5%	1,072,368	100.0%
1981*	775,849	59.4%	492,416	37.7%	1,306,144	100.0%

* Derived from Department of Education officials

The main reason that the local share has grown in recent years is that the provincial assistance has been set well below the actual rate of increase in school costs. For example, between 1980 and 1981, total school costs are expected to rise by 21.8% (from $1,072 billion to $1,306 billion in Alberta). At the same time, grants from the Province were announced on March 13, 1981 to be only 12.6% higher than 1980. The result has been that local property taxes have had to make up the difference through supplementary requisitions. Between 1980 and 1981 total supplementary requisitions rose by 32% on average across the Province for school costs. Graph I on the following page illustrates the above trends.

GRAPH 1

LOCAL SCHOOL AUTHORITY REVENUES: 1950 TO 1981
PROVINCE VERSUS MUNICIPAL GOVERNMENT



C. Trends in Revenues and Expenditures

Between 1972 and 1981 total revenues and expenditures rose from $406.9 million to an estimated $1.306 billion dollars. This represents an average annual increase of 24.5% per year. Table 2 following summarizes total expenditures for all jurisdictions from 1972 to 1981 as well as the percentage increase between each year.

TABLE 2

GROWTH IN ALBERTA SCHOOL EXPENDITURES: 1972 TO 1981

Year	Total Expenditures $000	Percentage Increase from Previous Year
1972	406,976	
1973	441,112	8.3%
1974	496,816	12.6%
1975	617,265	24.2%
1976	694,958	12.5%
1977	780,447	12.3%
1978	861,000	10.3%
1979	959,185	11.4%
1980	1,072,368	11.8%
1981	1,306,144	21.8%

Studies recently completed by the Department of Education in September 1981 (see Financing K-12 Schooling in Alberta - Alberta Education) show little variation in the key expenditure components of school costs over time. Generally speaking, instruction costs are approximately two-thirds of the total, on average, with operation and maintenance - 11 to 13%, administration - 4 to 5%, transportation - 5%, and other costs - 12 to 14% of the total. Clearly, if the school boards are going to control costs in future, they will have to control the number of teachers hired as well as salary expectations.

Since enrolments are projected to increase only modestly across the Province, due to the off-setting factor of falling birth rates, the only apparent method left to school boards in significantly controlling costs is

to limit the construction of new schools in outlying suburban areas of cities such as Calgary and Edmonton. At the same time, alternative uses of existing vacant schools must be found, and schools must consider busing children to empty schools rather than build new schools, otherwise, as will be shown in the next section, school taxes will eventually outstrip taxes left over for important municipal services.

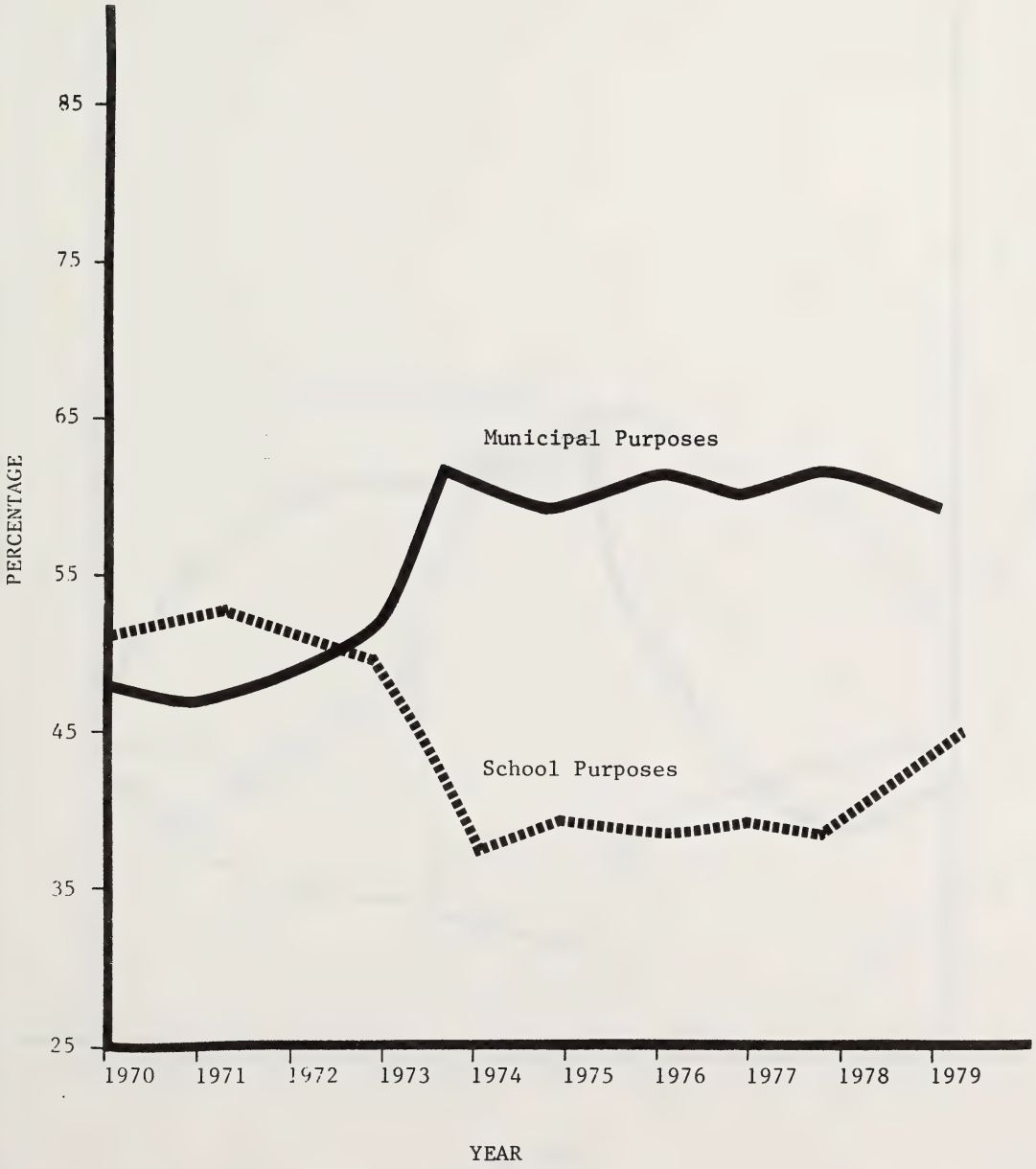
D. The Relationship Between Education and Municipal Taxes

One of the most alarming trends in terms of the municipal fiscal squeeze is the relationship between local taxes for schools versus municipal purposes. Graphs 2 to 7 following clearly illustrate the trend for an increasing percentage of local taxes to go to education. While the graphs only go to 1979, due to lack of disaggregated available data for 1980 and 1981, indications are that the trend continues. In 1979 all of Alberta municipalities raised through local taxation $407 million dollars for municipal services and $320 million for schools. The percentage is expected to be closer to 50% in 1981, based on recent estimates. Table 3 following analyzes the relationship between school taxes and municipal purposes by type and size of municipality for 1979.

GRAPH 2

MUNICIPAL TAXES

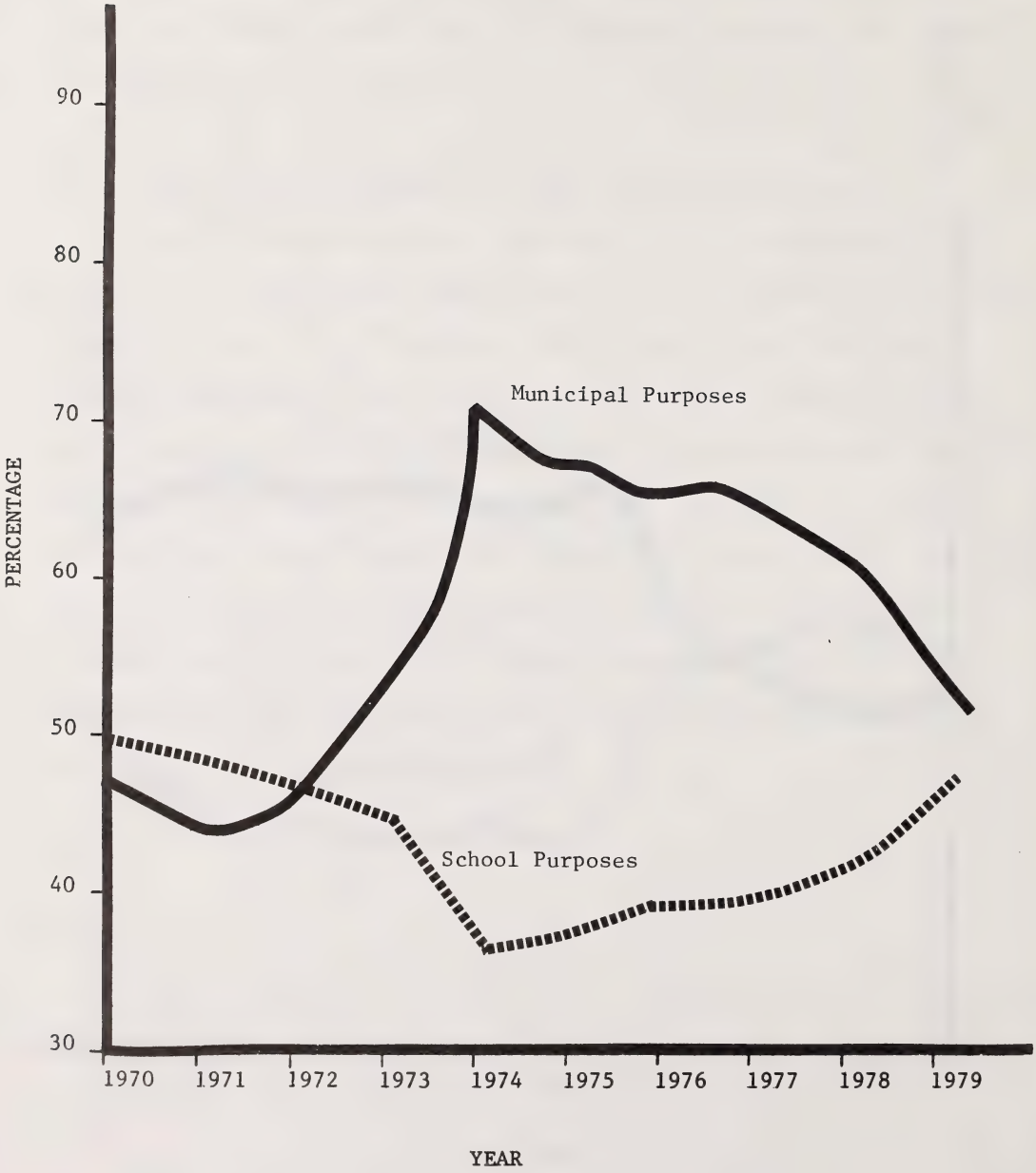
CALGARY & EDMONTON



GRAPH 3

MUNICIPAL TAXES

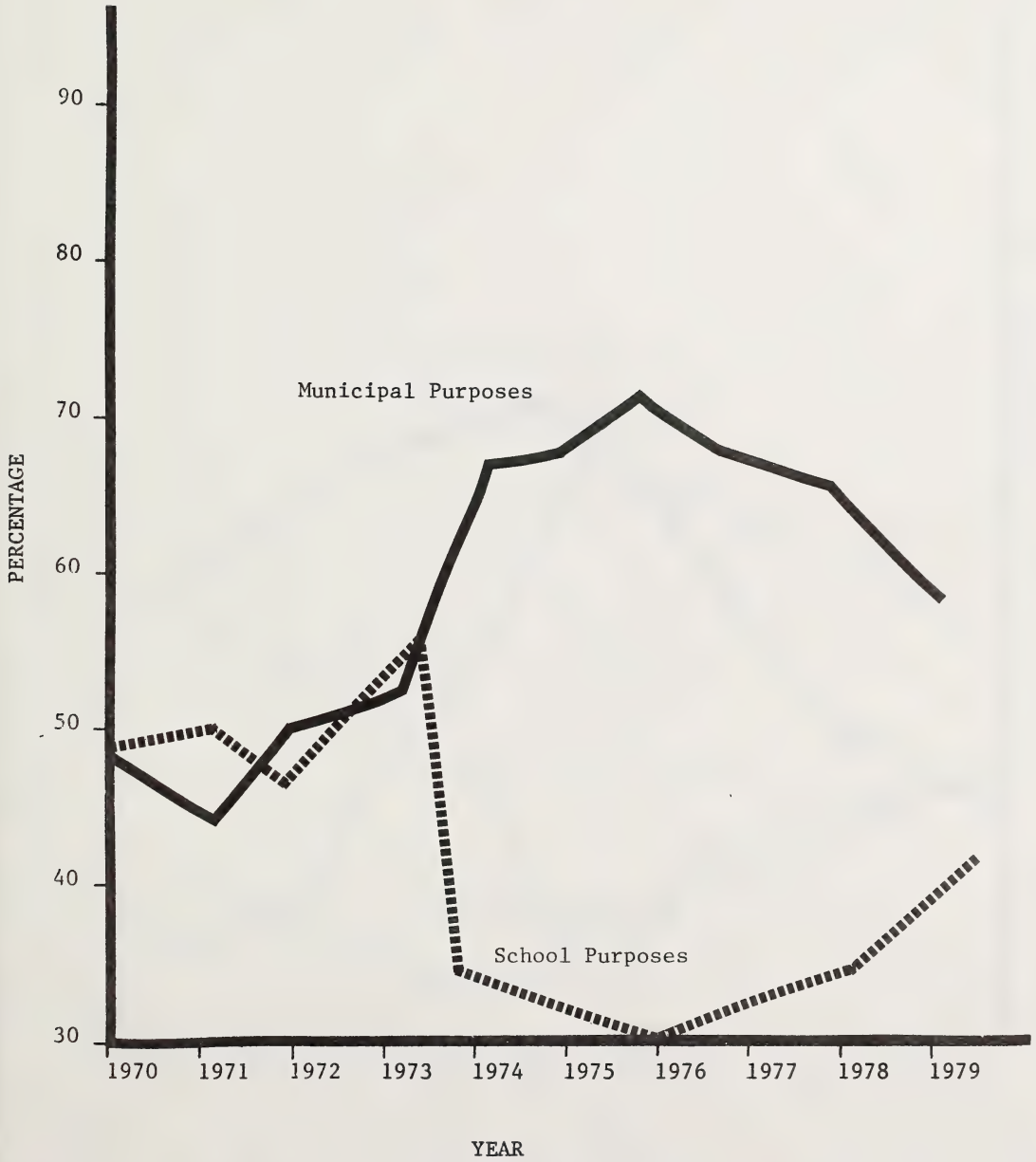
OTHER CITIES
(Camrose, Drumheller, Grande Prairie, Lethbridge, Medicine Hat, Red Deer, Wetaskiwin)



GRAPH 4

MUNICIPAL TAXES

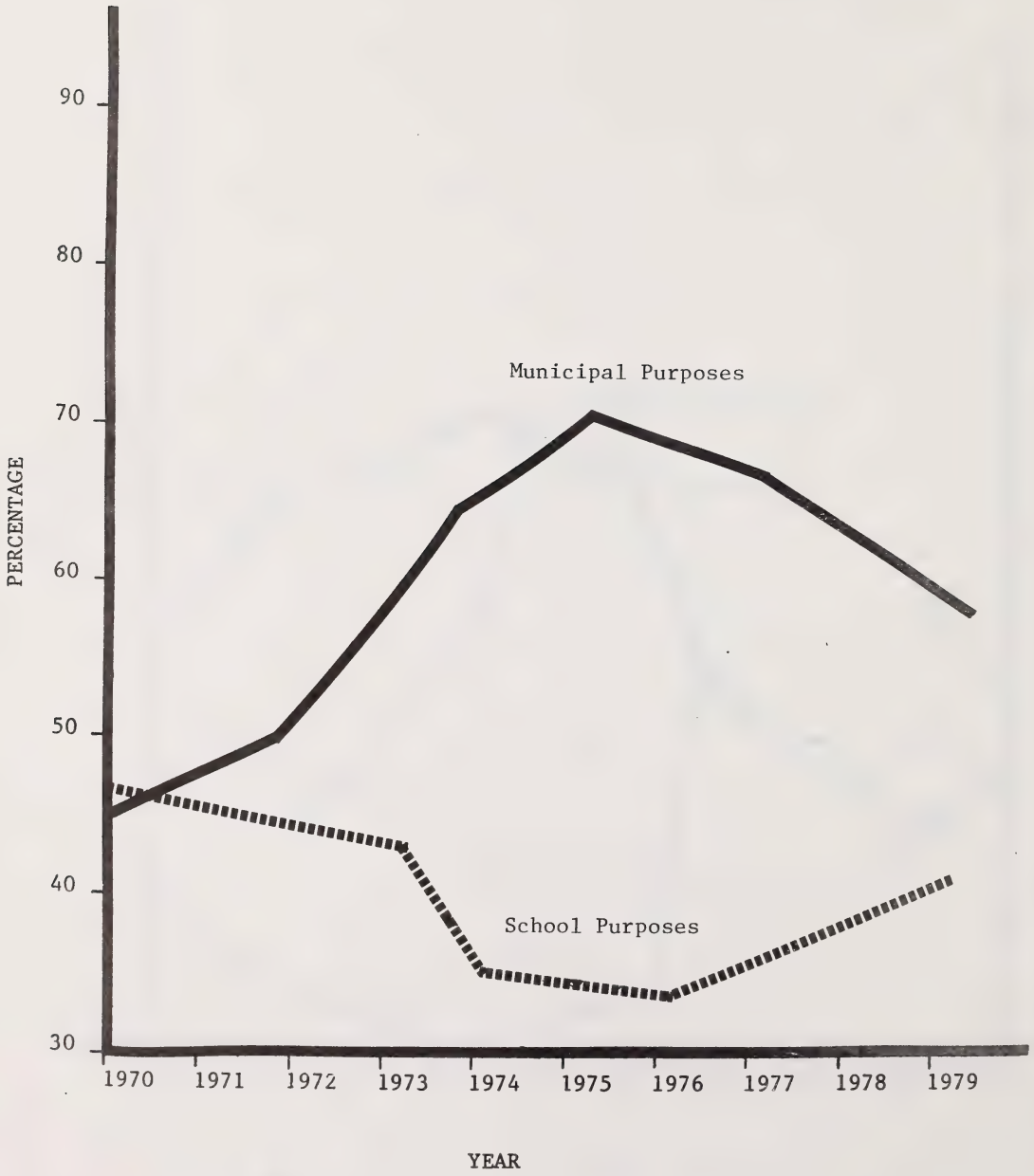
TOWNS



GRAPH 5

MUNICIPAL TAXES

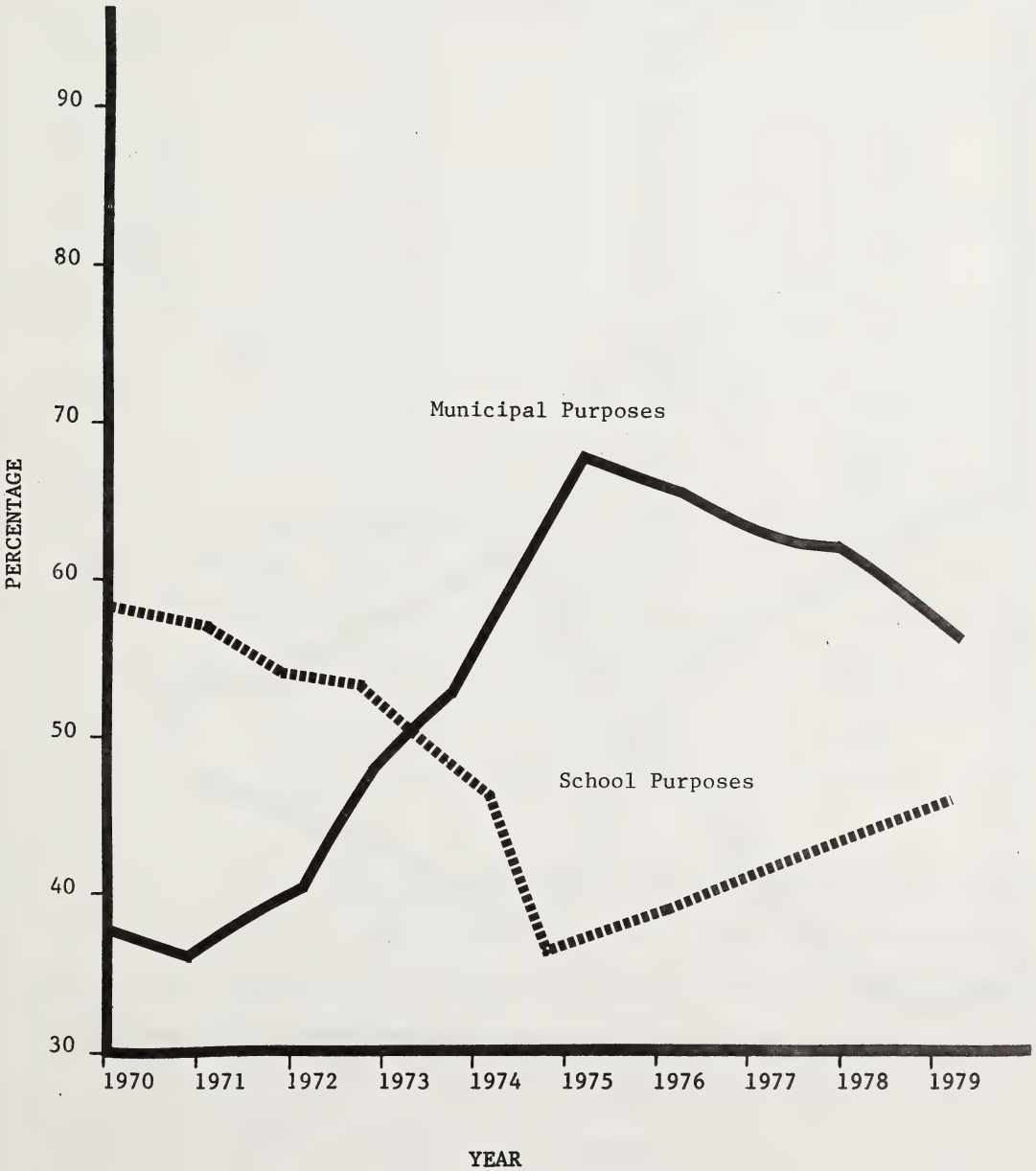
VILLAGES



GRAPH 6

MUNICIPAL TAXES

COUNTIES



GRAPH 7

MUNICIPAL TAXES

MUNICIPAL DISTRICTS

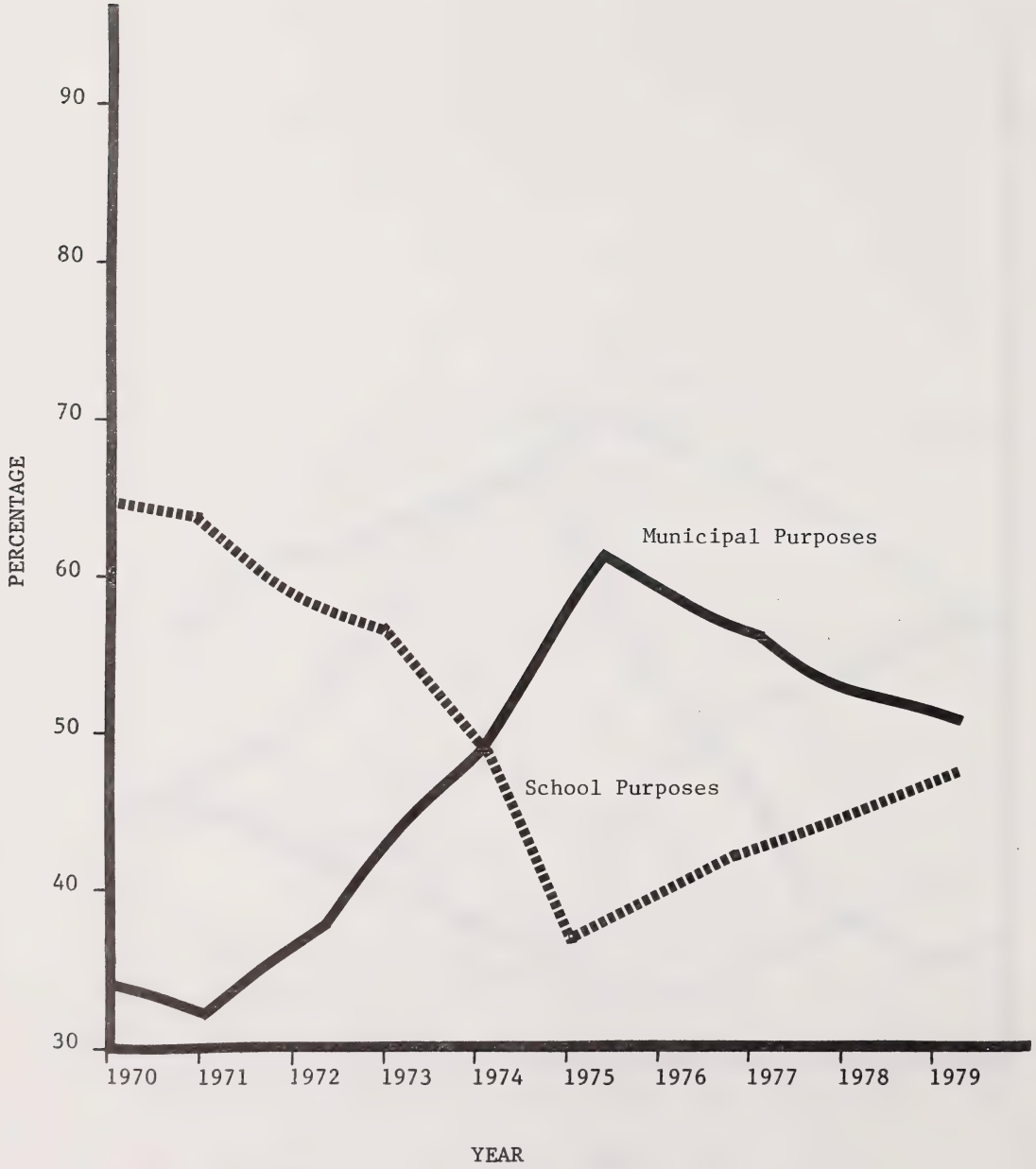


TABLE 3

EDUCATION VERSUS MUNICIPAL TAX LEVY
BY LOCATION: 1979 ($000)

Location	Education	Municipal	Education as Percentage of Total
Calgary	85,947	107,107	44.5%
Edmonton	89,084	125,815	41.4%
Camrose	1,420	2,104	38.8%
Drumheller	590	1,202	32.4%
Grande Prairie	2,842	4,323	38.9%
Lethbridge	8,306	8,852	47.4%
Medicine Hat	5,407	2,512	66.0%
Red Deer	4,280	5,650	47.3%
St. Albert	3,069	5,765	34.1%
Wetaskiwin	1,034	1,661	37.3%
TOTAL	28,204	32,074	45.5%
Towns	33,939	48,806	39.8%
Villages	4,188	6,626	37.8%
Counties	41,424	53,111	42.9%
Municipal Districts	16,465	18,516	45.8%
Improvement Distr's.	19,100	13,631	52.8%
Special Areas	2,302	1,603	55.8%
GRAND TOTAL	$320,660	$407,293	43.4%

As can be seen by the table, education taxes play a significant role in the ability of Alberta municipalities to finance municipal services, despite the availability of significant funds for education from the Province. Clearly, if education were removed from the property tax and funded completely by the Province, in 1979 Alberta municipalities would have benefitted by $320 million dollars.

VI MUNICIPAL FINANCE IN ALBERTA

A. Trends in Expenditures

As discussed in the Plain Report, municipal expenditures in Alberta have increased about eleven times between 1959 and 1977. Between 1972 and 1978, total expenditures for cities rose no less than 306% or an average of 51% per year. Even when expenditures are examined on a per capita basis, to take into account population growth, municipal costs per person have more than tripled in the six year period to 1978. Analysis of statistics in 1979 is misleading, due to the impact of a $1 billion dollar one time grant to allow municipalities to pay off debts. However, it is sufficient to note that the municipal requirements of municipal government have grown at a dramatic rate in recent years to keep pace with the huge demands of a very rapidly growing population. Table 4 following highlights the trend in municipal expenditures for Alberta's five largest cities as well as aggregate statistics for all cities, towns and villages over the 1970's.

TABLE 4

TOTAL ALBERTA MUNICIPAL EXPENDITURES: 1972-80

($000's)

	1972	1975	1979	1980
Edmonton	133,927	318,841	839,405	422,642
Calgary	119,962	259,858	799,974	469,881
Red Deer	7,878	14,218	53,801	33,355
Lethbridge	12,564	25,135	70,716	37,664
Medicine Hat	9,240	15,517	64,236	28,071
All Cities	292,329	646,972	1,910,468	
Towns	49,332	71,159	363,115	
Villages	8,156	11,345	56,670	

Despite these dramatic increases in municipal expenditures, the rate of increase has been kept down largely because of the impact of rising school costs. Since municipalities have no control over education, municipalities must usually wait to see what chunk of total taxes must go to schools before their own mill rate is set. Furthermore, since local school requisitions are a function of provincial grants and these have been set low in relation to cost increases, the net effort has been that municipal expenditure increases have been limited and the services provided have fallen behind the actual demand. The most significant increases in Alberta expenditures have been in the environment area (sewage services, sanitation and refuse), recreation and culture, and transportation. For example, in 1972 the City of Edmonton spent $12/capita for transportation. By 1980, the figure had risen to $64/capita. Nevertheless, between 1972 and 1979, Alberta towns saw their total per capita expenditures rise from $229 per capita to $1215 for an average increase of 61% per year during this period.

B. Trends in Revenues

One of the major findings of the Plain Report dealt with fiscal transfers from the Province of Alberta to municipalities. The following excerpt discusses these trends. Graph 8 on the following page illustrates the dramatic shift to conditional grants.

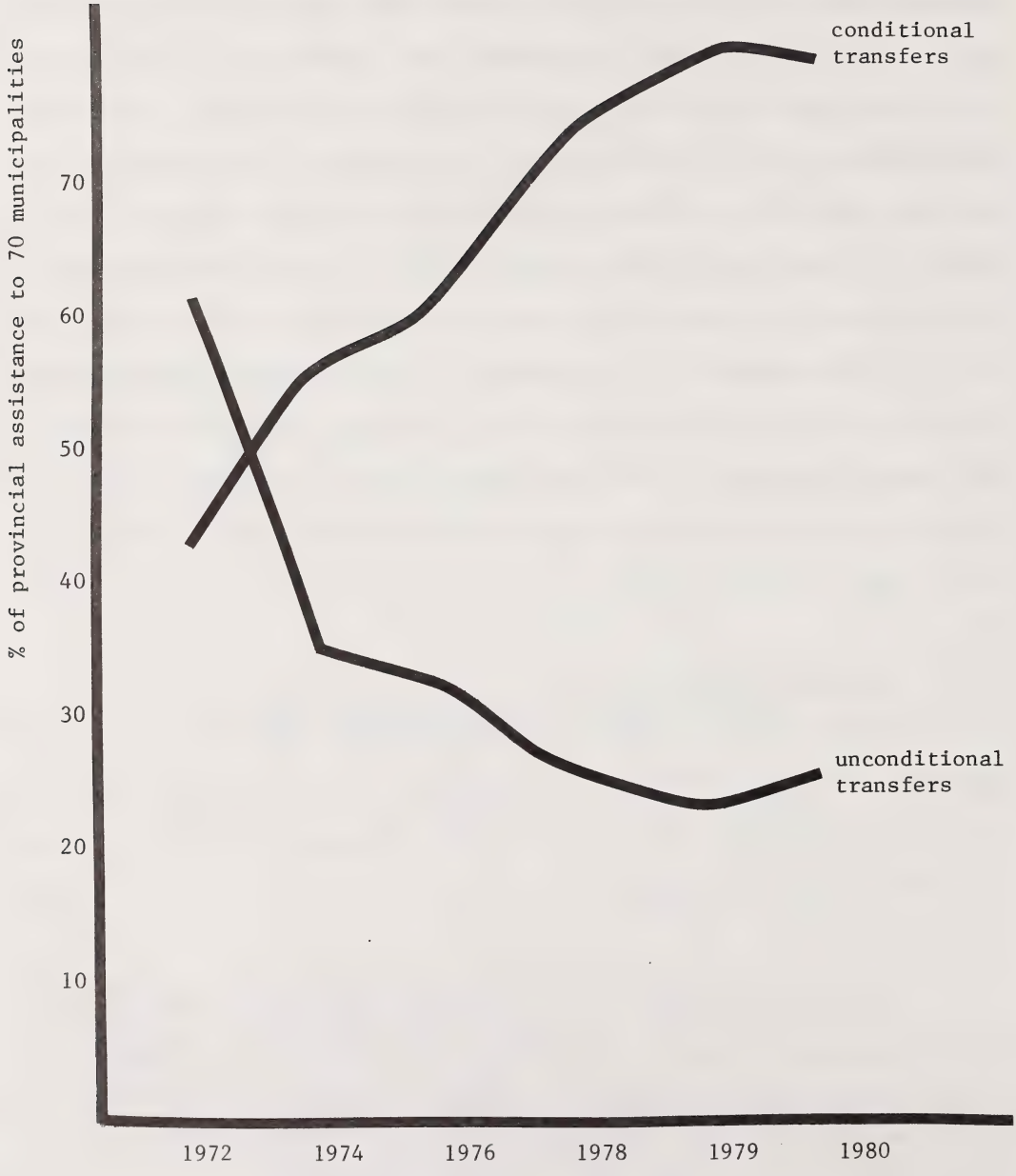
> Rather than declining, total taxes contributed slightly more to municipal general operating revenue in 1976 than in 1967 while property taxes increased from 34.3% to 43.4%. Transfers surprisingly enough, declined from 23% to 17.5%. Thus, while the provincial government was supporting through its transfers a larger portion of education costs* its assistance to the municipalities was decreasing relative to their general operating revenues and expenditures. Even more important, though, is the dramatic shift from unconditional transfers to

* As noted in Chapter V, this trend reversed itself in 1975.

GRAPH 8

PROVINCIAL CONDITIONAL AND UNCONDITIONAL ASSISTANCE TO MUNICIPALITIES

1972-1980



conditional grants. Until 1973, about two-thirds of the transfers were unconditional but by 1976 the majority of the assistance was in the form of conditional grants. (See Graph 8). Thus the municipalities found that over this period, not only were grants diminishing relative to their own general operating revenues but they received less of the transfers unconditionally to use as they saw fit and instead received more subject to some provincial conditions on their eligibility for or use of the funds.

While the situation has improved somewhat since the Plain Report was completed in 1979, the impact of provincial transfers on Alberta municipal budgets is quite small. For example, in 1980 in Edmonton, out of $436 million in total revenues, only $50 million or 11.4% came from the provincial government. About half of this money ($25 million) was conditional grants while half was unconditional transfers (5.7% of Edmonton's budget). In Lethbridge, on the other hand, while 12.1% of its budget in 1980 came from the Province, 74% of this money came in the form of conditional grants. As best as can be determined in 1981, no other Province in Canada has such a large proportion of its transfers to municipalities in the form of conditional grants as does Alberta. In terms of supporting local autonomny and the development of strong and capable municipal government, this trend can only be described in the long run, as unhealthy. Table 5 following analyzes the trends in Alberta municipal revenue components from 1972 to 1980.

Table 5 also illustrates a number of significant trends. First, the importance of local taxation to total revenues dropped until 1978, at which time property taxes began to rise dramatically to offset provincial government restraints in transfer payments. Second, the importance of "other revenues" is already very high and is likely quite fully exploited as a revenue source.

Third, as the size of the municipal population falls, the dependency on conditional grants increases (note Lethbridge and Medicine Hat). And fourth, despite the generosity of the provincial government, the actual impact on municipal budgets is quite small in total (ranging from 10-15%).

TABLE 5

ALBERTA MUNICIPAL REVENUES BY COMPONENT: 1972-1980

	1972	1976	1978	1980
Calgary				
- Taxes	69.8%	43.6%	39.8%	48.4%
- Other Revenue	11.3%	46.8%	50.8%	33.3%
- Unconditional Trans.	16.5%	2.9%	3.2%	7.1%
- Conditional Trans.		5.2%	5.7%	7.4%
Edmonton				
- Taxes	63.1%	36.2%	35.9%	54.8%
- Other Revenue	10.9%	54.6%	55.5%	21.6%
- Unconditional Trans.	25.8%	2.4%	2.0%	5.8%
- Conditional Trans.		5.1%	5.5%	5.9%
Lethbridge				
- Taxes	64.7%	38.3%	38.6%	49.8%
- Other Revenue	19.2%	50.0%	50.0%	31.5%
- Unconditional Trans.	11.1%	3.5%	2.6%	3.1%
- Conditional Trans.		4.2%	4.3%	9.0%
Red Deer				
- Taxes	58.5%	34.2%	32.0%	39.8%
- Other Revenue	16.0%	54.0%	54.3%	33.5%
- Unconditional Trans.	23.4%	3.8%	3.2%	5.6%
- Conditional Trans.		3.5%	3.3%	4.0%
Medicine Hat				
- Taxes	42.3%	14.7%	16.6%	34.6%
- Other Revenue	9.1%	52.0%	44.9%	27.3%
- Unconditional Trans.	29.7%	2.7%	1.4%	5.8%
- Conditional Trans.		13.0%	14.5%	9.5%

C. Provincial-Municipal Grant Programs in Alberta

The latest issue of Alberta Municipal Assistance Programs - 1981 put out by Alberta Municipal Affairs every year, lists no less than 82 provincial programs that provide direct conditional financial assistance to municipalities.[1] The Report deals with the programs of 18 different provincial departments. No other Province in Canada can come close to matching Alberta's myriad of programs available. The list is not exhaustive. Some officials estimate that the real number could be well over 100, but no one has ever gone to the trouble of putting a total list together. The reason. Programs change so frequently that the Province has difficulty keeping track of all these programs. As the Plain Report stated in 1979, "The sheer numbers make the system complex but the variety of conditions, qualifications and regulations make it more of a maze".

Between 1972 and 1978, unconditional assistance rose from $42 million to $62.6 million or 49%, while conditional assistance rose from $27.9 million to $176.6 million or 532.9%. Estimates for 1980 were $355.2 million for conditional assistance and $117.4 million for unconditional assistance.

The impact of conditional grants on local governments has been well documented. Research in the United States shows that cost shared programs stimulate municipal expenditures beyond the levels that would have existed if the transfers were unconditional. Also, growth in conditional grants usually means a growth in bureaucracy to administer all these programs. Programs like the 1979 Municipal Debt Reduction Program ($500 per capita) are a welcome gift to Alberta municipalities but they do little to foster sound municipal fiscal planning. Similarly, there was no thought to allocating this fund on the basis

---

1 See Appendix A

of need so that many communities with no debt whatsoever also received this grant. In future, the Province should meet with its municipalities and discuss the principles and mechanisms needed to develop a rational framework for meeting municipal needs in a fair and equitable manner, before coming out with new conditional grant programs.

VII INTERVIEWS WITH MUNICIPAL OFFICIALS

To obtain a better understanding of the needs for revenue sharing and the issues of local concern, municipal politicians and staff were interviewed both in person and by phone in many of Alberta's larger municipalities. Some of the comments are worth highlighting.

- Officials in the Department of Municipal Affairs were quite sympathetic to the need for revenue sharing. They agreed that the fiscal gap was widening, that broader income and resource revenues would need to be explored to finance this gap, and that current revenue sources under review were simply inadequate. They also had serious concerns about the dramatic rise in education requisitions and its erosion of the local tax base available for municipal purposes. They also shared the municipalities' concern for the proliferation of conditional grant programs at the provincial level, noting that they as a Department were having difficulty keeping track of them all.

- Municipal politicians expressed a desire for a consistent and predictable approach to the financing of local government. They all agreed that the 1979 $1 billion dollar Debt Reduction Program, while most generous, had put local fiscal management in disarray and had created a false sense of dependency on the Province. Many were under pressure to hold the line on property tax increases but were finding it increasingly difficult to do so. They were unanimous in their identification of education taxes as a serious problem but were divided on the suggestion that education taxes be totally removed from the property tax.

- The issue of revenue sharing as a solution is causing a considerable degree of fragmentation among municipal politicians. All of them felt that revenue sharing would be an optimum solution, but some felt that asking for it from the Alberta government was futile. Many favored the gas tax or any other local tax offered by the Province as crumbs but better than nothing at all.

- All municipal politicians expressed concern with the high portion of provincial monies in the form of conditional programs. Also, they could not understand why provincial assistance did not seem to reflect the dramatic costs of growth. They hoped that revenue sharing could help them out in this way.

- Several larger municipalities are actively exploring their growing financial requirements and in some cases, the issue of revenue sharing. In July 1981, the Mayor of Calgary set up a Task Force on Intergovernmental Affairs, chaired by the Mayor, to prepare a case for the need for greater provincial financial support and present the findings to the Provincial Cabinet. In Lethbridge, the Council recently asked the administration for a study of fiscal requirements with special emphasis on revenue sharing. In Edmonton, Council has received a Report comparing existing grants with revenues based on 8% of resource revenues. The study shows that revenue sharing at 8% would provide $381.8 million in revenues over and above existing projected grants between 1982 and 1986. This information was used to refute statements made by Marv Moore that existing grants were more generous than 8% revenue sharing.[1]

- Finance officials in various cities contacted were also sympathetic to the need for revenue sharing to meet the projected budget shortfall. They noted that little in the way of sophisticated research had been done to estimate revenue sharing needs, although considerable modelling work had been done to project budgetary shortfalls based on different mill rate increases. All expressed the desire to meet with each other more formally and get to work on the development of formulas for sharing revenues as well as equitable allocation criteria between municipalities. Several felt that research should be carried out estimating the real costs of growth.

---

[1] Alberta Hansard 1981 10 16

VIII STRATEGY FOR ADOPTION OF REVENUE SHARING

The development of a revenue sharing program for Alberta is no easy task. Even where governments are committed to the idea, obtaining consensus among so many different municipalities is tough. It is even tougher in Alberta because the government appears to be consistently against the idea, preferring to continually expand conditional programs and occasionally offering alternate revenue sources such as the gasoline tax. In such an environment progress towards the adoption of revenue sharing will be an uphill battle.

Nevertheless, the facts of the matter are that Alberta municipalities simply cannot finance the costs of growth in Alberta by themselves. While it is true that taxpayers in this Province enjoy the lowest taxes in the country, the situation is rapidly changing. Property tax increases are likely to increase dramatically in the future yet this revenue source continues to be unpopular, inequitable, and slow to respond to rapidly rising costs. As has been clearly demonstrated in this Report, most other Canadian Provinces have demonstrated a willingness to treat their municipalities as a partner. All other Western Canadian Provinces have adopted revenue sharing. Yet only Alberta chooses to respond to needs through more and more conditionally tied programs, controlled by distant civil servants in Edmonton.

Alberta municipalities should continue to press for revenue sharing because a) they need significant more funds if they are to provide adequate services to a growing population in the 1980's; b) it would enhance local autonomy and the credibility of local government if the number of conditional grant programs were reduced; c) it would allow municipalities to plan and budget in a more responsible way, and d) the Province of Alberta can certainly

afford to offer such a program without eroding their power base. A suggested strategy for adoption of such a program might be the following:

1. Determine Why Alberta Municipalities Want Revenue Sharing and Agree to Basic Principles.

   - What are the most important objectives? More money, more unconditional transfers, less bureaucracy, more local autonomy, or what?

2. Determine Major Areas of Responsibility Between the Province and the Municipalities for Financing.

   - This would involve decisions as to who should pay for schools, LRT, hospitals, housing programs and so on. If education had been funded entirely by the Province in 1981, $492 million dollars would have been reduced from the municipal property tax. Removal of certain major cost items like schools and LRT from local property taxes might result in no need at all for revenue sharing.

3. Calculate the Fiscal Gap Between Required Expenditures and the Realistic Growth in Local Revenues for Alberta Municipalities.

   - Much of this work has already been done. The AUMA should consolidate this information on a uniform basis for all Alberta municipalities and analyze the different fiscal gaps by type and size of municipality. The purpose of this work would be to recommend how big a slice of the total pie is actually required. Asking for 8% of $64 billion without backup substantiation is not likely to produce any response.

4. Recommend a Consolidation and Simplification of Existing Conditional Grant Programs.

   - Municipal leaders should ask their staffs to review all the grant programs they are currently engaged in and recommend the amalgamation and simplification of these programs where necessary. They might even want to suggest the transfer of staff from the Province to the municipality if the result would improve the delivery of the service.

5. Recommend a Better Balance Between Conditional and Unconditional Grant Programs.

   - Most Provinces who have sought improvement in the structure of provincial-municipal relations have recommended that the balance between unconditional and conditional grants be at least 60/40. The balance is 25/75 in Alberta in 1981.

6. As a Result of Quantification of the Fiscal Gap in #3, the Two Levels of Government Should Agree to a Minimum Base Revenue Sharing Fund for 1983.

   - Research on #3 should commence in early 1982 and be complete by mid 1982, and negotiations with the Province should take place in the latter half of 1982 so that a new program could be in place by fiscal year 1983/84 (April 1, 1983). Ideally, it would be preferable if this research were carried out in a collaborative way between the Province and the municipalities.

7. The Two Levels of Government Should Agree to an Escalator Provision that Allows the Revenue Sharing Fund to Increase at a Rate Linked to the Growth in the Total Provincial Economy.

   - The key to this point is to not simply ask for a percentage of resource revenues, since the fluctuations in the economy could make municipal budgeting difficult. The key is to have the total fund grow at a rate consistent with the total provincial economy. This smoothing provision would be helpful as well as providing municipalities with some general expenditure guidelines.

8. Develop an Allocation Formula for Municipal Revenue Sharing.

   - Once the fiscal gaps are determined and the differences between sizes and types of municipalities are noted, the development of an allocation formula can begin. Clearly this formula should take into account rapidly growing growth centres and their associated costs, as well as limited municipal fiscal capacity of poorer and smaller municipalities. While simple per capita formulas have been recommended by some cities, such approaches tend to penalize smaller centres and reduce their levels of provincial assistance. For this reason, a more sophisticated approach is warranted.

In the spirit of meaningful bargaining, the Province of Alberta and its Cabinet should be asked to participate in all aspects of the process described above. If the Province refuses, the municipalities should embark on the task on their own. Their survival as a legitimate and meaningful form of government depends on it.

APPENDIX A

ALBERTA MUNICIPAL ASSISTANCE PROGRAMS 1981

ADVANCED EDUCATION AND MANPOWER:

1. Summer Temporary Employment (S.T.E.P.)

AGRICULTURE:

1. Agricultural Services Board Program
2. Agricultural Societies Capital Grant
3. Agricultural Societies Operating Grant
4. Bacterial Ring Rot Control Policy
5. Rat Control
6. Seed Cleaning Plant Program

CULTURE:

1. Cemetery Restoration Assistance Program
2. Historical Publication Assistance Program
3. Local Historic Resource Assistance Program
4. Provincial Historic Resource Assistance Program
5. Registered Historic Resource Assistance Program
6. Special Historical Project Assistance Program
7. Municipal Inventory Assistance Program
8. Provincial Inventory Assistance Program
9. Museum Assistance Program
10. Major Cultural/Recreation Facility Development Program
11. Senior Citizens Facility Grant Program
12. Library Grant

DISASTER SERVICES:

1. Cost-Shared Equipment Program
2. Disaster Preparedness Financial Assistance Grant to Municipalities

ECONOMIC DEVELOPMENT:

1. Railway Facility Relocation Policy

EDUCATION:

1. Explanation of School Grants

APPENDIX A

ALBERTA MUNICIPAL ASSISTANCE PROGRAMS 1981

ENVIRONMENT:

1. Biting Fly Control Financial Assistance Program
2. Alberta Municipal Water Supply and Sewage Treatment Grant Program
3. Regional Water and Sewage Grant Program
4. Financial Assistance for Water Management
5. Oil Recycling Grant
6. Reclamation Program for Derelict Land
7. Alberta Solid Waste Management Assistance Program

HOUSING AND PUBLIC WORKS:

1. Alberta Municipal Housing Incentive Program
2. Grants in Lieu of Taxes
3. Home Conversion Program
4. Community Housing Program
5. Neighbourhood Improvement Program

HOUSING CORPORATION

1. Alberta Industrial Land Program
2. Residential Land Assembly and Development Program
3. Senior Citizen Lodge Program
4. Senior Citizen Self-Contained Program
5. Lodge Assistance Program

HOME MORTGAGE CORPORATION

1. Revolving Trunk Servicing Program

MUNICIPAL AFFAIRS:

1. Homeowner Refund
2. Interest Stabilization Grant
3. Municipal Assistance Grant
4. Property Tax Reduction
5. Senior Citizen Renter Assistance Grant
6. Senior Citizen Owner Occupied Mobile Home Renter Assistance Grant

APPENDIX A

ALBERTA MUNICIPAL ASSISTANCE PROGRAMS 1981

RECREATION AND PARKS:

1. Major Cultural/Recreation Facility Development Program
2. Operational Financial Assistance Program
3. Project Co-Operation
4. Provincial Parks Municipal Recreation Grants
5. Recreation Work Experience Program
6. Trail Development Financial Assistance Program

SOCIAL SERVICES AND COMMUNITY HEALTH:

1. Alberta Day Care Program
2. Integrated Day Care
3. Preventive Social Services
4. Social Allowance for Employables
5. Summer Recreational Program for the Handicapped
6. Family and Community Support Services

SOLICITOR GENERAL:

1. Law Enforcement Grant
2. Liquor Control Act
3. Municipal Police Building Subsidy
4. Police Phase-In Grant
5. Summer Village Policing

TOURISM AND SMALL BUSINESS:

1. Alberta Locations Program

ALBERTA TRANSPORTATION:

CITIES

1. Urban Transportation Program Package
2. Arterial Roadways Capital Assistance
3. Grant in Lieu of Public Transit Operating Assistance
4. Major Continuous Corridors
5. Primary Highway Maintenance Grant
6. Public Transit Capital Assistance
7. Railway/Highway Grade Separation Structure Assistance Program
8. Transportation Systems Management
9. Urban Signing Project
10. Research and Development

APPENDIX A

ALBERTA MUNICIPAL ASSISTANCE PROGRAMS 1981

SMALLER URBAN AND RURAL

1. Alberta Airport Development Program
2. Alberta Hamlet Street Assistance Program
3. Culvert Installation Grant
4. Public Transportation Operating Assistance Grant Program
5. Grants to Counties and Municipal Districts
6. Railway Crossing Improvement Program
7. Street Assistance Program

UTILITIES AND TELEPHONES:

1. Utilities Officer Program

APPENDIX B - BIBLIOGRAPHY

A. GENERAL

BAIRSTOW, Dale - A Brief History of Revenue Sharing in the United States and Implications for British Columbia - prepared for Finance Department, City of Vancouver, May 5, 1976

BAIRSTOW, Dale, Housing & Municipal Affairs Consultant, What Formula for Revenue Sharing? The Experience of Manitoba and the United States - presented to the North Central Municipal Association, Dawson Creek, B.C. June 11, 1976

BAIRSTOW, Dale - Is Revenue Sharing Really What We Need? Presented to Vancouver Island Municipal Association, Saanich, B.C., February 1976

B. ALBERTA GENERAL

THE ALBERTA URBAN MUNICIPALITIES ASSOCIATION AND THE PUBLIC AND SEPARATE SCHOOL BOARDS IN EACH CITY - Alberta Municipal Finance Study: Urban Crisis - Edmonton, Alberta, January 1968

THE ALBERTA URBAN MUNICIPALITIES ASSOCIATION - The Urban Fiscal Problem: Piecemeal or Aggregate Solutions? 64th Annual Convention, Edmonton, Alberta, 1970

MINIELY, Hon. G.T.W., Provincial Treasurer - 1972 Budget Address - Alberta, March 17, 1972

Provincial-Municipal Financial Arrangements - Final Report - Edmonton, Alberta, December 15, 1972

SOLYZYN, Vledimir - Agenda for Municipal Revenue Reform Edmonton, Alberta, 1972

The Task Force on Urbanization and the Future Issues in Local Government - Edmonton, Alberta, January 1976

Report of the Provincial-Municipal Finance Council on the Responsibilities and Financing of Local Government in Alberta (2 volumes) - Edmonton, Alberta, April 1979

PLAIN, Richard and McMILLAN, Melville - The New Partnership - Policies for Reforming Municipal-Provincial Fiscal Relationships in Alberta (3 volumes) - prepared for the AUMA, Edmonton, Alberta, August 1979

NORTON, Deryk G., Master of Arts Thesis, University of Alberta - Provincial Grants to Alberta Municipalities: Review, Assessment and Alternative Unconditional Grant Formulae - Edmonton, Alberta, October 12, 1979

ALBERTA MUNICIPAL AFFAIRS - Alberta Municipal Assistance Programs, Various Years 1976 to 1981 - Edmonton, Alberta

ALBERTA TREASURY - Alberta Estimates: Various Years to 1981-82

HYNDMAN, Hon. Lou, Provincial Treasurer - 1981 Budget Address: Alberta - Edmonton, Alberta, April 14, 1981

ALBERTA TREASURY - 1980-81 Reconciliation of Historical Data - Edmonton, Alberta

ALBERTA TREASURY - Alberta Heritage Savings Trust Fund Annual Report: 1980-81, Edmonton, Alberta

C. ALBERTA EDUCATION FINANCE

ALBERTA EDUCATION - School Buildings Regulation 1979, New Construction and Funding Policy - Edmonton, Alberta June 1979

ALBERTA EDUCATION - Financing K-12 Schooling in Alberta Edmonton, Alberta, September 1981

HANSON, Dr. Eric, The Alberta Teachers' Association, The School Foundation Program in the 1960's - Edmonton, Alberta, July 1971

THE ALBERTA TEACHERS' ASSOCIATION - Financing Education in Alberta - Edmonton, Alberta, April 1976

ALBERTA URBAN MUNICIPALITIES ASSOCIATION - Brief to the Minister's Committee on School Finance - Edmonton, Alberta, 1969

WOODS GORDON & COMPANY AND THE BROOKER ENGINEERING GROUP LTD. - School Facility Logistics: A Study for Alberta Education Dealing with School Planning, Acquisition and Funding Alternatives - Edmonton, Alberta, February 1977

D. UNITED STATES

NATHAN, Richard P., MANVEL, Allen and CALKINS, Susannah E., The Brookings Institution - Monitoring Revenue Sharing - Washington, D.C., 1975

E. BRITISH COLUMBIA

MINISTRY OF MUNICIPAL AFFAIRS, PROVINCE OF B.C. - Municipal Statistics: 1978 and 1979 - Victoria, B.C.

SKABURSKIS, Vischer, Planners for Province of B.C. Queen's Printer - Spatial Implications of Provincial Grants and Subsidies to Local Areas - Victoria, B.C. May 1981

UNION OF B.C. MUNICIPALITIES - Brief to the Commission of Inquiry on Property Assessment and Taxation - Vancouver, B.C., March 16, 1976

CITY OF VANCOUVER - City of Vancouver Financial Statements: 1978 and 1979 - Vancouver, B.C.

STANDING COMMITTEE ON FINANCE AND ADMINISTRATION, CITY OF VANCOUVER - Taxation and Differential Mill Rates - September 15, 1981

F. SASKATCHEWAN

KWON, O. Yul, Canadian Tax Journal, Vol 27 No.5 - Revenue Sharing as an Improvement in Provincial-Municipal Relations in Canada: An Evaluation of Saskatchewan Revenue Sharing - October 1979

G. MANITOBA

CURRIE, Andrew, Deputy Minister of Urban Affairs, Province of Manitoba - In Defence of Revenue Sharing - Winnipeg, Manitoba, October 10, 1975

DEPARTMENT OF MUNICIPAL AFFAIRS - Catalogue of Grants Available to Municipalities - Winnipeg, Manitoba, February 1977

H. ONTARIO

ASSOCIATION OF MUNICIPALITIES OF ONTARIO - Response to the Report of the Provincial-Municipal Grants Reform Committee - Toronto, Ontario, October 1978

GOVERNMENT OF ONTARIO - Report of the Provincial-Municipal Grants Reform Committee, Volume I - Toronto, Ontario, 1978

INTERGOVERNMENTAL RELATIONS, ONTARIO ECONOMIC COUNCIL - Issues and Alternatives - 1977 - Toronto, Ontario, 1977

DUPRE, J. Stefan, Queen's Printer - Intergovernmental Finance in Ontario: A Provincial-Local Perspective - Toronto, Ontario, September 1968

I. QUEBEC

MINISTRIES OF FINANCE, MUNICIPAL AFFAIRS AND TRANSPORTATION - Reform of Municipal Taxation and the Financing of Urban and Regional Communities and of Public Transportation - Quebec, P.Q., November 1979

J. NOVA SCOTIA

A DEPARTMENT OF MUNICIPAL AFFAIRS POSITION PAPER - New Directions in Municipal Government in Nova Scotia - Halifax, N.S., February 1978

DEPARTMENT OF MUNICIPAL AFFAIRS - Grants to Municipalities The New Grant System of the Department of Municipal Affairs - Halifax, N.S., September 1979

PROVINCE OF NOVA SCOTIA - Royal Commission on Education, Public Services and Provincial-Municipal Relations - Synopsis of the Report, Halifax, N.S., October, 1974

QUEEN'S PRINTER - Report of the Select Committee of the House of Assembly on Education, Public Services and Provincial-Municipal Relations - Halifax, N.S., June 1975

Report of the Minister's Committee on Municipal Taxation Halifax, N.S., October 1979

K. NEW BRUNSWICK

LOVE, Robert S. - Municipal Finance in New Brunswick - prepared for the Department of Municipal Affairs, Fredericton, N.B., September 20, 1978

APPENDIX C

UNITED STATES

The idea of revenue sharing in the United States was discussed widely by scholars and public officials as early as the 1950's. There emerged about as many versions of revenue sharing as there were supporters. Scores of revenue sharing bills were introduced in Congress, beginning with a few in 1957 to no less than 90 in 1968. Moreover, both political parties adopted revenue sharing in their 1968 platforms.

Unencumbered fiscal assistance to the states on a continuing basis can be traced to the Heller-Pechman Plan, a scheme devised in 1964 by Walter Heller, Chairman of the Council of Economic Advisers under Presidents Kennedy and Johnson, and Dr. Joseph Pechman of the Brookings Institute in Washington, D.C. Heller and Pechman intended that general revenue sharing would occur as block grants, with very few conditions attached, to be used by state and local officials as they saw fit. The Plan suggested that the federal government would each year, set aside 1 to 2 percent of the federal individual income tax for distribution to the states and that the states would share these income tax proceeds on the basis of population.

At the heart of the Heller-Pechman proposal was a serious attempt by its authors to accomplish three important objectives. First, the plan would make available to the states, on a permanent basis, federal dividends from the most progressive and equitable tax in the federal taxing system. Second, the per capita sharing formula would strengthen the poor states which needed the most support. For example, if the federal government were

to put aside 2 percent of personal income tax annually collected, the fund would receive $42 per capita from the 10 wealthiest states and only $18 per capita from the 10 poorest. Third, by allocating the funds with few strings attached, the scheme would enhance the decision-making process at the state and local levels and also broaden the flexibility and discretion of state and local governments. In essence, the plan provided an automatic "pay-out" in growing amounts each succeeding year, providing state and local governments with wide latitude in the expenditure of funds and thereby freeing those governments from the rigidities of federal requirements which they experienced under conditional grants.

President Nixon picked up the banner of revenue sharing for a number of reasons. As a conservative, Nixon had always been opposed in general to centralized government with its massive growth of national bureaucratic power at the expense of state and local governments. More particularly, the exaggerated multiplicity of federal grant in aid programs was an affront both philosophically and administratively. Between 1963 and 1972, the number of categorical programs had increased from 160 to 550, each with its own requirements, restrictions, formulae, and administrative procedures under central direction from Washington.

Finally, in early 1972 after more than two more years of debate, a revenue sharing bill was approved, which included distribution formulae which favored large urban regions with Democratic Party majorities. The Senate then modified the plan to favor the poorer and less urban states.

The law provided an automatic pay-out guarantee payment of $30.2 billion for a five year period from January 1, 1972 to December 31, 1976.

Annually, the total amount distributed began with $5.3 billion in 1972 to $6.5 billion in 1976, distributed to 38,000 state and local governments.

Congress provided two different formulae in determining the allocations for state areas. The choice of formula is left to each state, and it was assumed that the most favorable would be selected.

The first formula, known as the five-factor formula and developed by the House of Representatives, gives explicit recognition to the criteria of population, urbanized population, per capita income inversely weighted, state income taxes, and general tax effort. In devising the formula, the House took into account both the need of the states and the desirability of an incentive device to induce them to help themselves. All of the factors were not given equal weight; the first three were assigned 22 percent each, while the last two were given 17 percent each.

The second formula, known as the three factor formula and developed by the Senate, gave recognition to the factors of population, general tax effort, and weighted per capita income. Thus the Senate formula gives greater funds to the poorer, less urbanized states.

The Treasury Department computes state and local shares by first finding each state's share, then dividing the state's share into two portions; one-third of the state's share to go to state government and two-thirds to all eligible general purpose local governments. This excludes school districts and special purpose bodies. After a state's one-third share is calculated, the remaining two-thirds is divided up amongst the municipalities in the same way.

The most significant issue in relation to the American experience is the question of the ultimate result of such a program. While revenue sharing may enhance local autonomy as it substitutes for conditional grants, it may also reduce it as municipalities' dependence on the transfer increases. Also, as the experience has shown, it is very very tough to devise an allocation formula that is fair to a diverse set of local governments.

N.L.C. - B.N.C.
3 3286 06303678 0